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1973
**PHILLIPS
PETROLEUM
COMPANY**
Annual Report

ABOUT THE COVER

Phillips and its partners have found huge oil and gas resources beneath the waters of the North Sea, and have overcome many technological problems to develop those resources and bring them to world markets.

This drilling platform, lit for round-the-clock operation, is highlighted at Ekofisk Center in the North Sea.

Highlights

FINANCIAL	1973	1972
Total revenues	\$3,073,500,000	\$2,567,500,000
Net income	\$ 230,400,000	\$ 148,400,000
Per average share outstanding	\$ 3.05	\$ 1.98
Return on average total assets	6.9%	4.6%
Dividends paid	\$ 98,200,000	\$ 97,600,000
Per share	\$ 1.30	\$ 1.30
Average shares outstanding	75,538,000	75,087,000
Capital expenditures and investments ..	\$ 351,700,000	\$ 270,900,000
Total assets at year-end	\$3,606,800,000	\$3,269,600,000

OPERATING*

Crude oil and natural gas liquids produced — net barrels daily	365,000	363,000
Crude oil refined — barrels daily	460,000	450,000
Petroleum products sold — barrels daily ..	690,000	733,000
Natural gas produced — net thousands of cubic feet daily	1,825,000	1,853,000

*Includes operating results, in proportion to the Company's stock interests, of companies for which equity accounting is practiced.

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"Phillips," "the Company," "we," and "our" are used interchangeably in this report to refer to the business of Phillips Petroleum Company and its consolidated subsidiaries. Where reference is made to a particular company, it is wholly owned unless otherwise stated. The Company's consolidation policy is to include in financial statements the accounts of companies in which more than 50% interest is held. Where so indicated, operating data in this report also include the activities, in proportion to the Company's stock interests, of companies for which equity accounting is practiced.

In addition to the Phillips 66 shield, Phillips 66, Sixty-Six, Marlex, K-Resin, Rytan, Cis-4, Solprene, Reneer, Quintess, Marvess, Loktuft, and Opvan are trademarks for the Company's products named in this report.

to the stockholders

Your Company's 1973 earnings were \$230,400,000 or \$3.05 a share, compared with earnings of \$148,400,000 or \$1.98 a share in 1972. The Company's rate of return on average total assets was 6.9% in 1973 compared with 4.6% in 1972.

Of our 1973 earnings increase, 19% came from domestic operations and 81% from international operations. The rate of return on average total assets was 6% for domestic operations and 8.8% for international operations.

The 1973 increase in net income was due mainly to higher prices and increased production of foreign crude oil, greater contributions to earnings from foreign chemical plant operations and sales, increased prices and sales volumes for most domestic chemical products, and higher revenues from tanker operations.

Petroleum products sales volumes were lower because of shortages of crude oil supplies and products normally purchased for resale. Prices of crude oil and petroleum products were higher.

Fourth-quarter earnings were \$86,700,000 or \$1.15 a share in 1973 compared with \$38,100,000 or 51 cents a share in 1972. The increase resulted mainly from sharply higher prices and increased production of foreign crude oil in that quarter; higher prices for domestic crude oil and natural gas; and improvements in domestic chemicals and fibers, foreign chemical manufacturing and sales, and tanker operations.

The dividend paid to stockholders on March 1, 1974, reflected an increase in the quarterly rate to 35 cents a share from the 32½ cents paid since March 1, 1968.

In 1973, as in prior years, all earnings after dividend and debt payments were reinvested in the business, mainly to find and develop additional energy supplies.

During the five-year period, 1969 through 1973, our cash available from operations for capital expenditures and investments totaled \$854,000,000 whereas our spending for these purposes totaled \$1,500,000,000. This left a difference of \$646,000,000 which was made up by borrowing and sales of assets and stocks.

Phillips has authorized a capital program for 1974 totaling \$650,000,000, and capital expenditures and investments will be much higher in 1974 than the

\$351,700,000 spent in 1973. We anticipate this trend will continue as the Company proceeds with development of reserves in the North Sea, Nigeria, the North Slope of Alaska, and elsewhere, and at the same time steps up its oil and gas exploration and seeks other energy sources.

Developments in 1973

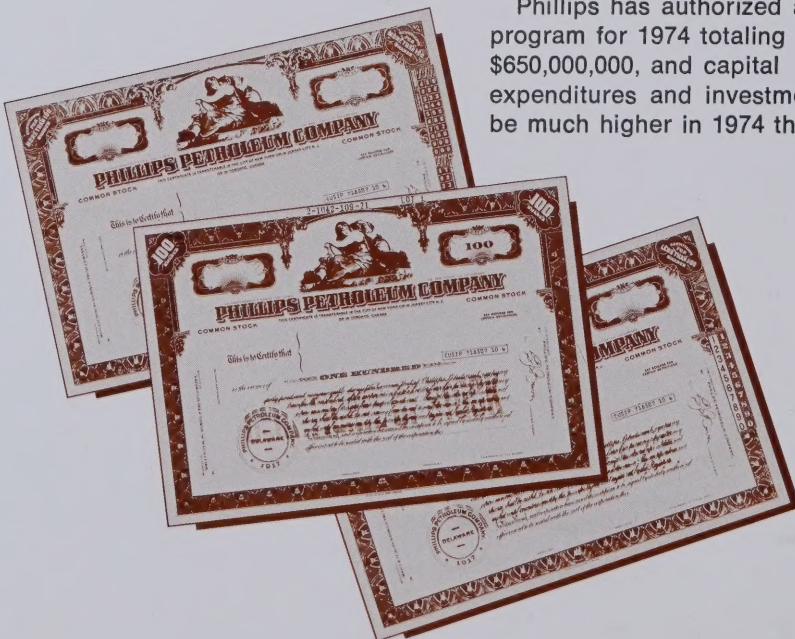
Substantial advances were made in 1973 on our major objectives of strengthening the Company's resource base and bringing new oil and gas production on-stream rapidly.

Two additional oil and natural gas fields were found in Nigeria. Phillips groups operating in the North Sea confirmed a major oil field and a gas-condensate field in the Norwegian sector and discovered an oil field in the British sector. A gas discovery was made in Canada. Two gas-condensate fields were discovered in waters off Louisiana, and a gas discovery made in the Texas Panhandle.

In Nigeria, completion of a pipeline and a coastal terminal enabled substantially increased oil production from several fields. Major work proceeded to develop several oil and gas fields in the Ekofisk area of the Norwegian North Sea.

We ordered two very large crude oil tankers, joined with others to construct a docking facility off the Texas Gulf Coast to unload such tankers, and led in forming a project to build an oil pipeline from this facility to central Oklahoma in order to make foreign oil available to inland refiners.

To help relieve shortages of petroleum products, our domestic refineries ran at the highest practical limits of their capacities until a shortage of crude oil forced cutbacks late in the year. Energy conservation programs throughout Company operations resulted in energy savings during 1973



equivalent to approximately 1,000,000 barrels of crude oil. Substantial chemical plant expansions were completed and others were begun.

A U. S. District Court judge in November ruled that the Company's entry into the California gasoline market by purchase of refining and marketing properties in California from Tidewater Oil Company in July 1966 lessened potential competition in that state. The Court's order requires Phillips to develop a plan of divestiture which will eliminate the anti-competitive effect as viewed by the Court. Phillips is appealing the decision to the U. S. Supreme Court, and we anticipate it will be another year or more before the case is resolved.

Outlook for 1974

We expect the Company's earnings and return on assets to be improved in 1974. Major contributions to higher earnings will come from increased oil production in Nigeria and the Norwegian North Sea. Also, we expect a further increase in earnings from domestic and foreign chemical plant operations and sales, natural gas sales, and improvement of fibers operations. We expect demand will continue to outstrip supplies of petroleum and chemical products. Costs will continue to increase.

Energy

The importance of energy to our economy, security, and way of life has recently been emphasized by shortages of oil and natural gas, which currently provide more than 75% of our domestic energy requirements. The recent withholding by Arab oil producing nations of oil normally imported by the U. S. makes it clear that we should give the highest priority to a national goal of achieving adequate, reliable energy supplies in the shortest possible time. Even with the combined efforts and

cooperation of government, the public, and energy-producing industries, it is doubtful this goal can be achieved before the 1980's.

Any actions taken by our government today involving energy will bear heavily on our economy, standard of living, and the availability of jobs in the years ahead. Therefore, any such actions should be carefully and logically considered. Actions which may impair or reduce the ability of the petroleum industry or other energy-producing industries to increase domestic supplies of oil and gas and other energy in the future are counterproductive and not in the best interests of our country.

Similarly, any action that would reduce the ability of U. S. companies to compete abroad in exploration for and production of petroleum would also be adverse to the national interest. We will have to depend upon huge petroleum imports for many years in the future. Access to these supplies will be best assured if U. S. companies are involved.

■ *Shortages Real, Not Contrived* — Many people still question whether there is a real shortage of energy in the U. S. Many more who accept the fact of a shortage believe it was "contrived" by the big oil companies.

Phillips has not participated in any contrivance to create the energy shortage. With all the allegations and investigations, no evidence has appeared that any other company has participated in a conspiracy.

There does appear to be concerted action among some people who would undermine the oil industry in favor of more government controls or even outright nationalization. They are pursuing these goals either unwittingly for political ends or knowingly toward an aim of destroying or severely crippling private free enterprise.

Doubts about the reality of the shortage have been planted and

nurtured among the public by many influential people in government, media, consumer groups, and academic circles, who should be in position to know better.

The shortages are real, and only a milder-than-normal 1973-74 winter delayed their full impact. Virtually all the oil and gas wells in this nation are being produced at their maximum economic rate. Prior to the oil embargo last fall, the nation was importing 6,375,000 barrels of oil and products daily, equal to 35% of our demands, and U. S. refineries were running at their fullest practical rates. Even so, shortages prevailed. The embargo, which had reduced U. S. imports of oil and products by nearly 1,500,000 barrels daily by January 1974, only served to intensify these shortages.

A shortage of natural gas, steadily growing, has been evident much longer. For several years, most gas utilities have been unable to take on new customers because of a shortage of natural gas.

■ *Causes of Shortages* — What then are the causes of the crisis and the conditions that continue to aggravate it? In simplest terms, demands began to outstrip supplies. There were a number of reasons for this, and here are the major ones.

- Low prices of natural gas caused by Federal regulation of producers' prices since 1954. Low prices slowed the search for gas while increasing demand for it. They also suppressed prices of other forms of energy, thus stifling their discovery and development.

- Federal regulation of prices of domestic crude oil since 1971.

- The long blockage of construction of the trans-Alaskan pipeline, finally removed in 1973, which kept huge supplies of Alaskan North Slope oil from reaching U. S. markets and practically halted drilling on the Slope.

- Limited sales of leases on the Outer Continental Shelf, the principal remaining U. S. prospect for very large oil and gas reserves.

- Insufficient new domestic refining capacity because of uncertainties over crude oil supplies and product specifications to meet environmental requirements, low return on refinery investment, and difficulties in obtaining permits for construction.

- Restriction of coal and oil use due to low-sulfur requirements.

- Environmental and licensing delays in nuclear plant construction.

- Increase in demand for gasoline because of more cars traveling more miles and getting fewer miles per gallon.

- Failure by the oil industry itself to anticipate the suddenness and severity of the development of shortages.

- Greater reliance on oil imports, to meet the shortfall in domestic supplies, forced by policies discouraging domestic exploration. This made the nation vulnerable to the action which greatly aggravated the crisis — the oil embargo.

■ **Road to Adequate Energy —**

Conservation is helping ease the energy crisis and Americans are to be commended for the discipline they are exercising in energy use. However, the only way to achieve adequate, secure energy supplies is to greatly increase domestic energy resources. This can come about only if profits are adequate to finance the costly programs required to find, produce, and refine additional domestic petroleum resources and develop other energy sources.

Contrary to many charges, the oil industry has not been making excessive profits. Its profits, as a return on capital invested, were at a

10-year low in 1972. Oil industry profits did improve sharply in 1973 to give a return about the same as the average for all manufacturing industries. These increases barely brought the industry's rate of return back to previous levels, whereas inflation has greatly reduced the value of dollar earnings needed to replace oil and gas reserves, refinery equipment, and other physical facilities.

Higher profits are required if the oil industry is going to help make our country more nearly self-sufficient and more nearly independent insofar as energy supplies are concerned. Major oil companies, according to statistics, have for many years spent more money than they had available for investment. Much higher spending and more substantial investments are going to be necessary in the future to meet national energy goals. Any disincentives imposed by Congress will only reduce the funds available to do this job. It appears little consideration is being given to estimates which reflect that even at present rates of profit, sufficient funds will not be generated.

■ **Private Free Enterprise**

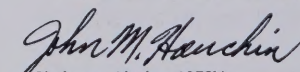
Endangered — We are greatly disturbed at evidence that a growing number of people are losing confidence in private free enterprise, with particular criticism directed at profits. There seems to be a lack of appreciation and understanding that profits after dividend payments to stockholders are reinvested thus providing more jobs and more opportunity and security for workers. If we who believe in private free enterprise complacently let this trend grow through increasing government involvement and controls, the system could so erode away that we would find ourselves living within a nationalized or socialistic economy. This would be a regrettable milestone.

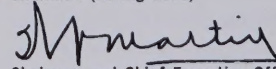
While no system is perfect, history has proven that private free enterprise is the best system ever devised for fulfilling the material and social needs of people. History has also proven that controls breed shortages and then more controls. American businesses and their owners would be well advised to face up to strong efforts being made to discredit private free enterprise, and to initiate objective programs aimed at maintaining this proven system, with due recognition to changing times that demand attention to social as well as business needs. Phillips itself has initiated actions through such means as disclosures, communications, printed materials, and broad speaking programs.

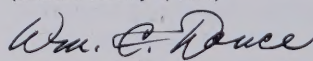
Companies such as Phillips exist to provide goods to consumers, returns to stockholders, and jobs to employees. We believe it is essential that each person with these vital stakes in our economic system be responsive to attempts to undermine it and take the initiative in upholding it.

We sincerely appreciate the support of stockholders, loyalty of customers, and efforts of employees, which enabled the Company to make notable progress in 1973. These factors give us great confidence in Phillips future.

For the Board of Directors,


Chairman (during 1973)*


Chairman and Chief Executive Officer
(effective January 1, 1974)


President (effective January 1, 1974)

*Mr. Houchin attained mandatory retirement age January 1, 1974

March 26, 1974

financial review

Total 1973 revenues of \$3,073,500,000 consisted of gross operating revenues, \$2,990,000,000, and other revenues, \$83,500,000. Sources of gross operating revenues were as follows, stated in millions of dollars:

	1973	1972
Petroleum products	\$1,388.7	\$1,233.7
Chemicals, fibers, and fabricated products	807.1	589.6
Crude oil	416.5	327.2
Natural gas (including helium)	183.9	180.4
Other sales and services....	193.8	181.8

Revenues from operations outside the United States were \$660,200,000 or 22% of total revenues in 1973 compared with \$412,600,000 or 16% of total revenues in 1972.

Net income in 1973 was \$230,400,000, of which \$141,100,000 was earned on U. S. operations and \$89,300,000 on operations outside the United States.

Federal and state income taxes in 1973 were \$50,507,000 and foreign income taxes were \$43,841,000. Other taxes including property, oil and gas production, and social security, came to \$69,011,000, bringing the Company's total direct taxes for 1973 to \$163,359,000. That was equivalent to 5.3 cents per dollar of total revenues, and to \$2.16 a share compared with \$1.30 a share paid in dividends to Phillips stockholders in 1973. An additional \$287,000,000 in taxes was collected for city, state, and Federal governments on the sale of products, primarily gasoline.

Capital expenditures and investments totaled \$351,700,000, distributed as follows: exploration and production 70%, manufacturing

15%, transportation 12%, marketing 2%, and other assets 1%. Of the total, \$178,700,000 was applicable to U. S. operations and \$173,000,000 to operations in other countries. Capital expenditures and investments in 1972 were \$270,900,000.

Assets at year-end totaled \$3,606,800,000, an increase of \$337,200,000 during the year.

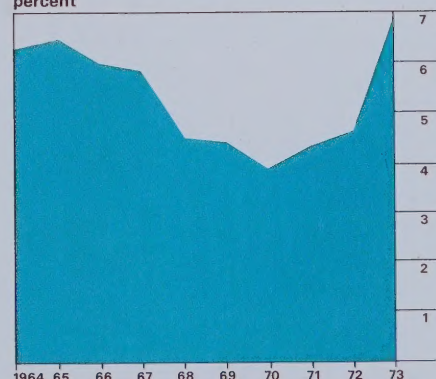
At December 31, 1973, the Company's long-term debt totaled \$799,100,000, which was \$7,300,000 more than a year earlier.

During 1973, Phillips Petroleum Company Norway (a wholly owned subsidiary) and other members of the Phillips Group made arrangements to finance the development phase of the Ekofisk area fields. The Group's arrangements included a Euro-dollar loan of \$150,000,000, to be repaid from November 1975 through 1980. Commitment was received for a U. S. export credit of \$67,950,000 to be repaid in five semi-annual installments commencing in July 1978. Arrangements also were made to finance the transportation system which is owned by four affiliated

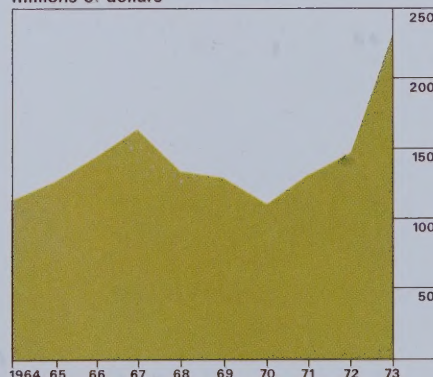
corporations in which Phillips ownership is less than 50%. Three of these corporations entered into a Euro-dollar loan of \$600,000,000 with repayments semi-annually from 1977 through 1983. In addition, two of the transportation system corporations received a commitment for a \$126,900,000 U. S. export credit, payable in eight semi-annual installments commencing in July 1980.

Additional financial information, as well as 10-year operating data, is presented on pages 22-30.

RETURN ON TOTAL ASSETS†
percent

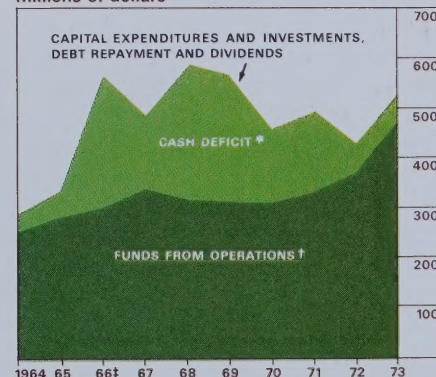


NET INCOME†
millions of dollars



†Data for 1967, 1968, 1969, and 1970 have been restated to reflect the adoption in 1971 of equity accounting for investments.

FUNDS AVAILABLE AND EXPENDED
millions of dollars



*Made up by borrowings and sales of assets and stock.

† Excludes \$308,600,000 for Western U. S. Manufacturing and Marketing properties.

natural resources

The Company's major objective of strengthening its natural resource base and producing and marketing new oil and gas rapidly was advanced materially in 1973.

Two previously discovered oil and gas fields were confirmed in the Ekofisk area of the North Sea. Discoveries included an oil field in the United Kingdom sector of the North Sea, two oil and gas fields in Nigeria, a gas field in Canada, two gas-condensate fields in the Gulf of Mexico, and a gas field in the Texas Panhandle. A total of 34 discoveries and 88 dry holes resulted from drilling of 122 exploratory wells on full and part-interest acreage.

Worldwide net production of crude oil and natural gas liquids was about the same as in 1972.

PRINCIPAL DISCOVERIES, FIELD EXTENSIONS, AND DEVELOPMENT DRILLING

UNITED STATES

GULF OF MEXICO — Phillips and partners made two gas-condensate discoveries in waters off Louisiana. One, on Block 480 in the

West Cameron area, contains 125 net feet of productive sands, several of which were confirmed in a second well. Phillips has 20% interest in this 5,000-acre block which was purchased in the December 1972 Federal lease sale. A 25% interest discovery well in Breton Sound Block 45 tested 550 barrels of condensate and 5,350,000 cubic feet of gas a day. A second well one and a half miles west was not productive. Phillips has 3,655 net acres offsetting the discovery to the north.

CALIFORNIA — One full-interest and four half-interest development wells were drilled in the Union Island Gas Field, discovered in 1972 in San Joaquin County. The field is in a 4,320 net-acre block.

NORTHERN LOUISIANA — We drilled six natural gas development wells in the West Bryceland Field in Bienville Parish, Louisiana. The field is on a 9,700-acre block and at year-end contained 13 productive wells.

TEXAS PANHANDLE — We began a program to test deeper formations in the Hugoton natural gas field. Four exploratory wells resulted in three dry holes and one discovery with a potential of 20,000,000 cubic feet of gas a day. A nearby confirmation well had a similar potential.

OUTSIDE UNITED STATES

CANADA — The Company found a new natural gas field 40 miles west of Calgary. The well flowed at rates totaling 32,500,000 cubic feet of gas a day from two zones. Two good development wells were completed, and a step-out well was begun.

NIGERIA — Two oil and natural gas fields were found in a new area of Nigerian concessions in which Phillips holds one-third interest. One discovery well tested a combined total of about 14,000 barrels of oil a day from four zones. Additional drilling was begun to determine the field's extent. Another field was found in this general area late in the year but had not been tested by year-end. Development drilling was started in the area of a late 1972 discovery well which flowed from three zones at a combined rate of 15,000 barrels of oil a day and also encountered gas.

NORWEGIAN NORTH SEA — The Eldfisk Field on 37% interest acreage was confirmed as a major oil field by additional extension wells. Testing indicated wells in the Eldfisk Field will be able to produce an average of 10,000 barrels of crude oil a day per well.

A well drilled by the Phillips Group eight miles northwest of the Ekofisk Field confirmed that a significant portion of the Albuskjell structure lies within the Group's acreage, held 37% by Phillips. In tests the well had daily flow rates of 2,900 barrels of oil and 16,000,000 cubic feet of natural gas. A gas-condensate field was found on this structure in 1972 by a Phillips-supported well drilled on adjoining acreage.

UNITED KINGDOM NORTH SEA — A group in which Phillips has 34% interest discovered a new oil field, named Maureen, about 170 miles east of the coast of Scotland. Production tests were made in a series of zones with daily flow rates varying from 2,300 to 3,600 barrels of crude oil. Further drilling was started to more fully evaluate this discovery. The group drilled three dry holes elsewhere in the U.K. sector of the North Sea.

PHILLIPS WORLDWIDE OIL AND GAS INTERESTS



This unique million-barrel, steel-reinforced concrete crude oil storage tank was set in place as part of the Ekofisk drilling and production complex in the North Sea.



NET OIL AND GAS ACREAGE AT YEAR-END

UNITED STATES

Total	6,792,000
Developed	1,125,000

OUTSIDE UNITED STATES

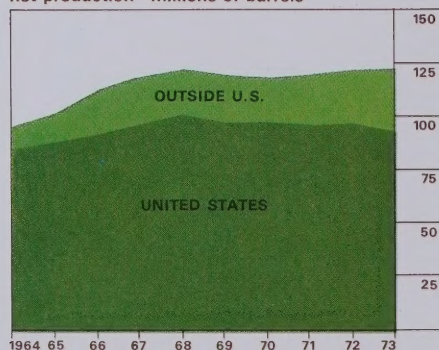
Canada	3,166,000
Latin America	5,829,000
Europe	1,397,000
Africa	9,906,000
Middle East	3,031,000
Southeast Asia	37,348,000
Australia	6,072,000
Total, outside U.S.	66,749,000
Developed, outside U.S.	48,000

■ **New Acreage Acquired** — In the United States, we acquired oil and gas acreage in Federal and state waters off Texas and Louisiana; the Powder River Basin of Wyoming; the Anadarko Basin of Texas and Oklahoma; and the Southern Appalachian Basin of West Virginia, Virginia, Kentucky, and Tennessee.

In Canada, we acquired more acreage in Alberta and the Arctic Islands.

We contracted with Bolivia's state oil company for petroleum operations on approximately 2,600,000 acres in the Beni Basin of northern Bolivia, and commenced seismic exploration on the acreage. Phillips obtained one-third interest in two blocks offshore Portugal

CRUDE OIL AND NATURAL GAS LIQUIDS
net production—millions of barrels



totaling 410,000 gross acres, and full interest in 1,478,000 acres offshore the Philippines. We increased our acreage interests in two areas of Indonesia.

Among the last frontiers of oil and gas exploration in the Free World are deep ocean waters. Phillips and partners examined deep-water prospects off 15 countries. We also worked on development of technology and equipment to find and produce petroleum in deep ocean waters.

■ **Expenditures Increase** — Capital and exploration expenditures to acquire, find, and develop oil and gas reserves were \$273,000,000, compared with \$218,400,000 in 1972.

DRILLING STATISTICS	Exploratory		Development	
	1973	1972	1973	1972

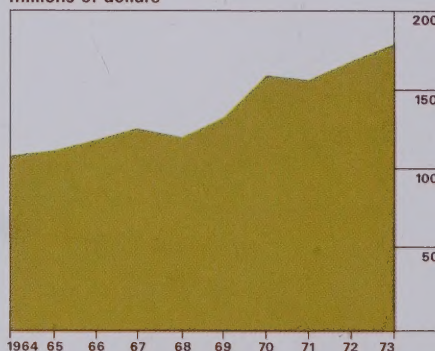
UNITED STATES

Gross wells	65	66	529	342
Net wells	38	37	156	86
Oil	2	4	86	57
Gas and gas condensate ..	4	1	48	16
Dry holes	32	32	22	13

OUTSIDE UNITED STATES (net wells)

Canada	3	6	1	—
Latin America	1	1	—	—
Europe	5	3	—	—
Africa	7	5	8	3
Middle East	3	2	—	1
Southeast Asia	4	1	—	—
Total	23	18	9	4
Oil	7	5	7	4
Gas and gas condensate ..	3	—	1	—
Dry holes	13	13	1	—

NATURAL GAS REVENUE
millions of dollars



■ **New Energy Sources** — In the Sierra Valley of California, Phillips drilled an unsuccessful geothermal energy exploratory well in a 5,100-acre, half-interest block. Further drilling is planned. Geothermal energy promises to be a significant energy source in certain parts of the western U.S.

Phillips was one of 16 companies to join in an oil shale project to be conducted at Anvil Points, Colorado. The 30-month project will evaluate two shale oil extraction processes.

■ **Production of Liquid Hydrocarbons About Same** — Average worldwide production of crude oil and natural gas liquids, at 338,100 barrels a day, was virtually unchanged from 1972. Increases in crude oil production in Nigeria and Venezuela offset declines in oil and natural gas liquids output in the United States and in oil production in Iran and Egypt.

LIQUID HYDROCARBONS PRODUCED	Net Barrels Daily	
	1973	1972
UNITED STATES		
Crude oil	122,300	130,200
Natural gas liquids	134,800	137,400
Total U.S.	257,100	267,600
OUTSIDE UNITED STATES		
Crude oil	78,400	66,300
Natural gas liquids	2,600	2,800
Total outside U.S.	81,000	69,100
WORLDWIDE		
Crude oil	200,700	196,500
Natural gas liquids	137,400	140,200
Total worldwide	338,100	336,700

Our worldwide search for petroleum reserves entails high risks, such as drilling four unsuccessful holes at a cost of \$3 million thus far in exploring one promising Utah area.



■ **Progress in Norway** — The Ekofisk area fields, in which our interest is 37%, are being developed in four phases. The four Phase I wells produced 11,800,000 barrels of oil in 1973, although shut down 65 days mainly by weather, bringing accumulated production to 26,400,000 barrels.

Completion of Phase II, which includes drilling 30 wells in the Ekofisk Field, is expected in early 1975. The facilities will handle production of 300,000 barrels of oil a day and will greatly reduce shutdowns due to weather.

Three drilling platforms, a producing platform, and a crew-quarters platform were completed. A 1,000,000-barrel capacity reinforced concrete storage tank was towed to the Ekofisk site and set on the sea bottom. The tank will come into service in the second quarter of 1974, to store crude oil that cannot be loaded onto tankers

during bad weather. A two-acre area on top of the tank will be used for equipment, estimated to cost \$150,000,000, necessary to produce the wells, operate oil and gas pipelines, and develop fields in the Ekofisk area. This use eliminates the need for additional platforms for these purposes.

Phase III consists of developing the Cod gas-condensate and the West Ekofisk and Tor oil and gas fields; tying them into Ekofisk central production facilities; laying oil and gas pipelines to shore; and constructing onshore facilities. A 220-mile, 34-inch oil pipeline from the Ekofisk facilities to Teesside, England, was nearing completion at year-end. Contracts were let to construct a 270-mile, 36-inch gas pipeline to Emden, West Germany. It will make deliveries of at least six trillion cubic feet of gas over the life of a 20-year contract Phillips and its partners signed early in 1973 with purchasers in four western European countries.

Phase IV will consist of developing and tying into the Ekofisk facilities the Eldfisk, Edda, and Albuskjell and any yet-to-be discovered fields nearby.

■ **Nigerian Production Increases Substantially** — We completed a

terminal on the Nigerian coast to receive oil from a pipeline completed from producing areas. Nigerian oil production was 40,300 barrels a day net to Phillips in December compared to 19,600 barrels a day in December 1972. We expect production to reach approximately 67,000 barrels daily to our one-third interest by December 1974.

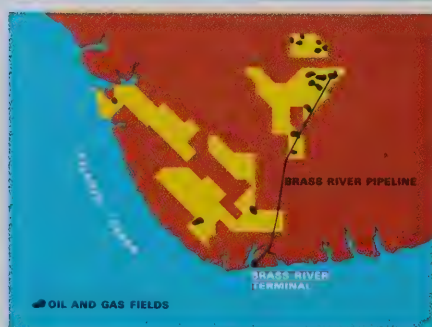
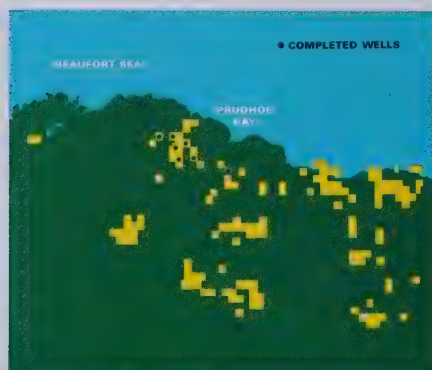
■ **Venezuelan Oil Production Up** — Our crude oil production from Venezuela was higher due to stronger demand for heavy crude oil from the Monagas Field.

■ **Approval to Build Trans-Alaska Pipeline** — The Company has interests in large oil and gas reserves in the Prudhoe Bay Field on the Alaskan North Slope. Late in the year Federal and Alaskan legislation was approved to enable construction of a pipeline to move North Slope oil to the southern Alaska port of Valdez. We have 3.32% interest in the company which will build and operate the line. Completion is expected in 1977.

■ **Property Acquisitions to Add U. S. Production** — Phillips acquired the assets of Beardmore Oil Inc., producing about 1,000 barrels of oil and 2,000,000 cubic feet of natural gas daily in Kansas and Colorado.

An offer by Phillips to acquire the assets of Cardinal Petroleum Company, was accepted by Cardinal's directors, subject to approval of its stockholders after year-end. Cardinal was producing about 3,000 barrels of oil and 3,250,000 cubic feet of gas daily from properties in seven states and Canada. The assets include undeveloped acreage in several states, 11 drilling rigs, and a 70-mile oil pipeline in Montana.

PHILLIPS ACREAGE ON ALASKAN NORTH SLOPE



PHILLIPS ACREAGE IN NIGERIA

PHILLIPS ACREAGE IN THE NORTH SEA



Our Nigerian crude oil is pipelined to a new terminal on the coast and loaded on tankers for shipment to the U. S.





■ **Induced Recovery** — More than 25% of the Company's domestic oil production was induced through injection of natural gas, steam, water, or other fluids into underground formations to produce oil which otherwise would be left in the ground. During 1973 the Company entered into 11 new induced recovery units. At year-end we owned interests in 297 induced recovery units or projects, 98 of which we operated.

■ **Canadian Affiliates** — Pacific Petroleum Ltd., a 48% owned integrated Canadian oil company, produced 54,000 net barrels of crude oil and natural gas liquids per day and had natural gas revenues of \$24,700,000 in 1973. Pacific drilled 49 net exploratory wells and 37 net development wells, of which 14 and 28, respectively, were productive. Westcoast Transmission Company Limited, a Canadian natural gas transmission company in which Phillips owns a direct and indirect interest of 21%, had natural gas revenues of \$143,800,000 in 1973.

■ **Natural Gas Revenues Increase** — Our worldwide natural gas revenues increased 7% due to higher volume from the British sector of the North Sea and improved natural gas prices. Total sales volume was down 7% because of a decline in production from older U. S. fields and insufficient new discoveries to replace depleting reserves.

REVENUES	1973	1972
Gas revenues, U. S.	\$146,800,000	\$137,300,000
Gas revenues, outside U. S. ...	\$ 32,100,000	\$ 30,000,000

Phillips discovered large volumes of natural gas at this site near Calgary in Canada.

■ **Gas Processing Plants** — A new, full-interest plant with processing capacity of 55,000,000 cubic feet of gas daily was completed in Brazoria County, Texas. It replaced an adjacent, uneconomic, part-interest plant. The new plant uses a process substantially improving recovery of ethane. Ethane is used to produce ethylene, a feedstock for making polyethylene plastics.

Substantial liquids production increases at two Texas plants resulted from studies made by Opvan, a mobile computer system for analyzing operations, developed by Applied Automation, Inc., a subsidiary.

■ **FPC Action on Gas Pricing Policies** — In face of an increasingly serious natural gas shortage, the Federal Power Commission took further actions to permit more competitive prices for producers' interstate gas sales. Phillips arranged for short-term gas sales contracts for noncommitted gas. Our average natural gas sales price increased three cents per thousand cubic feet over that of 1972.

■ **British North Sea Gas Expansion** — Gas production capacity of the Hewett Field, in which our interest is 19%, was increased substantially after completion of an expansion project begun in 1972.

■ **U. S. Cancels Helium Contracts** — The U. S. Government terminated contracts entered into under the Helium Conservation Program. Under this program, helium otherwise wasted was recovered from natural gas, sold to the Government, and stored for future uses. Helium is a scarce natural resource. For environmental, conservation, and economic reasons, Phillips hopes efforts to renew this program will be successful.

Although Phillips realized higher prices for petroleum products in 1973, the return from the petroleum processing, supply, and marketing segment of our business was lower because of unrecovered higher costs for raw materials, labor, and products purchased for resale. Federal price controls did not allow recovery of all these higher costs in 1973.

■ **Refinery Runs Maximized** — To help relieve heating oil and motor fuel shortages, we ran our six U. S. refineries at the highest practical limits of their capacities until the fourth quarter, when a shortage of crude oil forced a reduction in runs. Refinery operations were adjusted, at economic penalty, to produce greater than normal amounts of heating oil and motor fuels during their high demand seasons.

Decreased domestic crude oil supplies required importing greater amounts of higher priced foreign crude oil. In the last quarter of 1973, 23% of crude oil for our U. S. refineries was imported, compared with 12% in the comparable period of 1972. Cost of this foreign crude oil averaged 300% more per barrel in the 1973 period.

REFINERY RUNS — Crude oil and natural gas liquids	Barrels Daily	
	1973	1972
UNITED STATES		
Kansas City, Kansas	87,000	80,000
Borger, Texas	186,000	189,000
Sweeny, Texas	142,000	146,000
Woods Cross, Utah	23,000	23,000
Great Falls, Montana	6,000	6,000
Avon, California	100,000	101,000
Total U. S.	544,000	545,000
San Roque, Venezuela	2,000	3,000

■ **Refining Affiliates** — The Company has stock interests of 50% or less in several companies operating refineries outside the United States. For 1973, our interests in their refinery runs, in proportion to our stock interests, totaled 64,000 barrels a day.

In addition to these refinery runs, average daily naphtha runs were 50,200 barrels in our Puerto Rico chemical complex and 40,600 barrels in 49% owned Petrochim's plant in Belgium.

■ **Unleaded Gasoline** — To comply with Federal government environmental regulations, the Company must begin supplying unleaded gasoline at several thousand of its service stations beginning July 1, 1974. This requirement has necessitated substantial revisions and additions to our refineries, transportation and distribution systems, and marketing facilities, at a cost of approximately \$46,000,000 for the years 1971-1974.

■ **Refinery Alterations** — Revisions completed at the Woods Cross refinery and other work begun at the Woods Cross and Kansas City refineries will enable them to produce greater amounts of unleaded gasoline. Equipment was installed at the Borger refinery to reduce sulfur content of heating oil and diesel fuel made there and

to permit use of some higher sulfur crude oil.

Equipment to further reduce plant sulfur emissions was installed at the Borger and Sweeny refineries. A computer control system, developed by wholly owned Applied Automation, Inc., was installed at the catalytic cracking units of the Borger refinery. It increases yields of gasoline and distillate from each barrel processed.

■ **Crude Oil Transportation Actions** — We took a number of long-range steps toward adequately supplying our domestic refineries with crude oil.

We ordered two very large, 261,000 deadweight ton crude oil tankers. The capacity of each equals about 2,000,000 barrels or 82,000,000 gallons. One is scheduled for completion in 1976 and the other in 1977.

Phillips and 12 other companies joined to construct a new facility off the Texas Gulf Coast to unload very large crude oil tankers. Called "Seadock," it will be located near Freeport and connected by pipeline to our Sweeny refinery 30 miles away. There is no existing U. S. port capable of accommodating very large crude oil carriers. If enabling legislation from the U. S. Congress and a construction permit are not delayed unduly, Seadock should begin operation in 1977.

Phillips led in forming a new project, Seaway Pipeline, to build a 510-mile, large-diameter pipeline from the Seadock terminal to Cushing, Oklahoma. The line, scheduled for completion in late 1975, will make foreign crude oil available to inland refineries, including ours at Kansas City and Borger.

■ **Petroleum Products Sales Decline** — Worldwide sales volume of petroleum products fell 6% from 1972 levels. Sales volumes of most principal fuels declined.

Lubricant sales rose slightly. Because of shortages, products we normally had purchased in substantial amounts from other refiners for resale were largely unavailable to us during 1973.

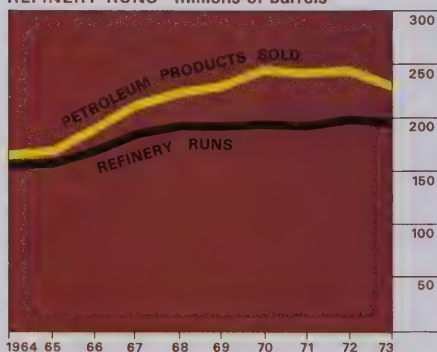
PETROLEUM PRODUCTS SOLD	Barrels Daily	
	1973	1972
UNITED STATES		
Automotive gasoline	299,000	323,000
Aviation fuels	27,000	27,000
Distillates	95,000	101,000
Liquefied petroleum gas...	91,000	111,000
Other products	41,000	43,000
Total U. S.	553,000	605,000
OUTSIDE U. S.	84,000	72,000
WORLDWIDE	637,000	677,000

■ **Product Allocations Necessitated** — We began allocation programs for petroleum products when it became evident demands for them would exceed our available supplies. Our programs were designed to share the shortages fairly between our customers and our own outlets.

The marketing of propane, heating oils, and diesel fuels came under mandatory Federal allocation programs on November 1. The Government later imposed cutbacks in deliveries of heating oil to homes, fuel to aviation users, and gasoline to wholesale and retail dealers.

■ **Importing Liquefied Petroleum Gas** — Liquefied petroleum gas importing facilities were installed at our Adams Terminal on the Houston Ship Channel to increase supplies for customers.

PETROLEUM PRODUCTS SOLD AND REFINERY RUNS—millions of barrels



Installation of many additional storage tanks was necessary to prepare for marketing of unleaded gasoline at several thousand Phillips 66 service stations starting in 1974.



chemicals

Results from operations of the chemicals, fibers, and fabricated products segments of our business improved and were important factors in the rise in Company earnings in 1973.

Sales volumes and prices of most principal products increased. Operating efficiencies were improved. Chemical interests outside the United States, mainly partly owned affiliates, made especially significant contributions to the improvement in earnings. A number of expansion projects of these foreign affiliates were completed, and other expansions were started to meet growing domestic and foreign demands for plastics and rubber chemicals.

■ **Chemical Revenues** — Revenue from sales of chemicals was \$546,000,000 in 1973 compared with \$386,400,000 in 1972. This does not include our interest in sales of companies owned 50% or less, all outside the United States.

Prices for most of our chemical products rose because of strong demand. However, Federal price controls prevented full recovery of rising operating costs in domestic markets. Revenues from overseas operations benefited from free market prices as well as burgeoning demands.

Shortages of oil and gas caused an industrywide deficiency of most petrochemical feedstocks. However, Phillips was not as severely affected as many companies because we supply much of our own feedstocks.

■ **Plastic Resins** — The combined effect of energy shortages and an expanding world economy resulted in strong, stable prices for our lines of plastic resins.

Demand was especially strong for our Marlex polyolefin plastics. Sales volume rose 20% to a high of 575,100,000 pounds, and plant expansions were begun in the United States and abroad.

Demand for our new K-Resin butadiene-styrene plastic exceeded capacity of the plant, which began operation in late 1972. Sales of our new engineering plastic, Ryton polyphenylene sulfide, continued to grow due to its desirable electrical properties and resistance to heat, wear, and corrosion.

■ **Rubber Chemicals** — Despite shortages of some feedstocks, sales volumes of carbon black and synthetic rubber increased substantially. Our plants operated to the fullest extent possible on available feedstocks.

Phillips acquired 50% interest in a carbon black plant at Bristol, England, with annual capacity of 251,000,000 pounds, previously owned by Philblack Limited, a Phillips licensee.

■ **Fertilizers** — Phillips worldwide fertilizer sales volume increased 30%, and our average realized prices for most fertilizer products were higher.

There was a dramatic turnaround in the fertilizer business in 1973 after recent years of excess capacity, weak prices, and low returns. A strong and continuing demand for fertilizers caused shortages in the U. S. Federal price controls were removed in the latter part of the year to encourage greater supplies.

The Company's Cactus Ammonia Plant in the Texas Panhandle, our oldest fertilizer facility, was shut down in November due to inefficient use of natural gas and mounting costs.

Ultrafertil, the Brazilian fertilizer complex in which we have 71% interest, neared the profit stage in 1973 and steps were taken to further improve its results. This operation has impaired Company earnings since startup in 1970.

■ **Special Products** — Revenue from sales of special chemical products increased 38% over 1972. Profitability rose as a result of improvements in plant efficiencies and product mix, increased sales volumes for most products, and better prices for some. These products consist mainly of ethylene, aromatics, high-purity hydrocarbons, petro-sulfur compounds, solvents, and drilling mud additives.

Expansion programs were begun at the Philtex Plant near Borger, Texas, to increase production of various petro-sulfur compounds.

■ **Phillips Puerto Rico Core** — Revenues and earnings from operations of Phillips Puerto Rico Core Inc., were up substantially, mainly because of much higher worldwide prices for most basic chemicals, which more than offset higher costs. This subsidiary operates near Guayama, Puerto Rico, a complex which produces basic chemicals and motor fuel from naphtha. The improvement began to slack off in the latter part of the year due to rapidly rising prices for naphtha, which is derived from crude oil. Product prices did not offset these rising costs.

■ **Plant Expansions** — Principal chemical plant capacities added during the year and new projects under construction or authorized at year-end are shown in the table on the following page.

A section of the Company's new 24-inch diameter, high-density polyethylene plastic pipe comes off the production line.



■ *Fibers Operations Improve* —

Consolidated fibers sales revenues were \$151,100,000, 46% above revenues of \$103,200,000 in 1972. Every fibers products line had higher sales. Prices increased modestly, reflecting increased costs as well as strong markets. Demand for Phillips 66 nylon yarn, Quintess polyester yarn, Marvess olefin staple and yarns, and Loktuft non-woven fabrics exceeded plant capacities. Process improvements at most plants increased efficiency and productivity without lowering product quality.

There was strong demand for Marvess olefin products in the home furnishing field. Loktuft fabric, made with Marvess olefin staple and

sold mainly as a carpet backing, made large inroads in the furniture industry as an interior construction fabric for sofas, chairs, and similar products. It is less expensive and provides better performance than traditionally used jute, burlap, and cotton fabrics.

■ *Fabricated Product Revenues Rise* — Revenues from sales of fabricated plastic and paper products of several wholly owned subsidiaries totaled \$110,000,000 compared with \$100,000,000 in 1972. Principal problems in this segment of our business were rising costs and shortages of some materials used in making products. A continuing program of reducing costs through better utilization of

people and elimination of low-profit products helped offset these factors.

Sales of plastic pipe in uses requiring high performance standards increased. Plastic pipe, conduit, and duct prices were firm due to heavy demand and industrywide shortages of plastic and metal raw materials.

Emphasis on gas pipeline safety heightened demand for our polyethylene plastic pipe, which does not corrode. Old steel and cast iron lines are economically renewed by inserting plastic pipe inside them. Such applications in water and sewer systems also are growing. We began producing large-diameter (24-inch) pipe for these uses. A new plant to produce high-quality polyethylene pipe was established at Williamstown, Kentucky. An old, uneconomic polyvinylchloride pipe plant in Pennsylvania was shut down.

Sales of molded plastic items improved substantially. An expansion to increase production of Sixty-Six polypropylene bottles was started.

Vinyl film sales rose. A new vinyl wood grain laminate, Reneer II, which closely simulates wood grains, is expected to have numerous applications in the furniture industry.

Sales by H. P. Smith Paper Co., which makes films and paper coatings, rose substantially. Rapid growth in the pressure-sensitive label and decal markets was a main factor.

Operating results of Sealright Co., Inc., which produces packaging materials and machinery, improved substantially. Contributing factors were elimination of some uneconomic product lines, improved prices, and more efficient operation.

PRINCIPAL CHEMICAL PLANT EXPANSIONS

PRODUCT	LOCATION	PHILLIPS INTEREST	ADDITIONAL GROSS ANNUAL CAPACITY
COMPLETED DURING 1973			
Synthetic rubber	Salamanca, Mexico	39%	7,900 long tons
Carbon black	Borger, Texas	100%	20,000,000 pounds
Carbon black	Candeias, Brazil	35%	39,700,000 pounds
Carbon black	Durgapur, India	30%	12,500,000 pounds
Carbon black	Hannover, West Germany	100%	11,000,000 pounds
Carbon black	Malmö, Sweden	50%	4,400,000 pounds
Carbon black	Santander, Spain	45%	14,600,000 pounds
Butadiene	Puertollano, Spain	45%	70,600,000 pounds
Sulfuric acid	Santos, Brazil	71%	18,000 tons
UNDER CONSTRUCTION OR AUTHORIZED AT YEAR-END			
Sulfur ⁽¹⁾	Chatom, Alabama	90%	66,400 long tons
High-density polyethylene ⁽²⁾	Houston, Texas	100%	160,000,000 pounds
High-density polyethylene	Puertollano, Spain	45%	77,200,000 pounds
High-density polyethylene	Le Havre, France	20%	52,900,000 pounds
High-density polyethylene	Antwerp, Belgium	30%	101,400,000 pounds
Ethylene	Antwerp, Belgium	49%	37,500,000 pounds
Ethylene	Oita, Japan	20%	55,100,000 pounds
Polypropylene	Oita, Japan	40%	22,000,000 pounds
Polystyrene	Feluy, Belgium	50%	83,300,000 pounds
Synthetic rubber (Cis-4)	Borger, Texas	25%	10,000 long tons
Synthetic rubber	Salamanca, Mexico	39%	24,600 long tons
Synthetic rubber	Antwerp, Belgium	49%	24,600 long tons
Synthetic rubber	Kurnell, Australia	100%	4,900 long tons
Synthetic rubber	Santander, Spain	45%	29,500 long tons
Carbon black	Orange, Texas	100%	20,000,000 pounds
Carbon black	Borger, Texas	100%	27,000,000 pounds
Carbon black	Candeias, Brazil	35%	28,700,000 pounds
Carbon black	Bristol, England	50%	8,800,000 pounds
Carbon black	Ravenna, Italy	50%	11,000,000 pounds
Carbon black	Port Elizabeth, S. Africa	50%	18,700,000 pounds
Carbon black	Durgapur, India	30%	4,400,000 pounds
Carbon black	Kurnell, Australia	100%	6,600,000 pounds

(1) New plant; others are additions to existing plants.

(2) Plant can also produce low-density polyethylene.

Employee interest in safe working practices and in devising cost-saving measures was manifest in results of safety and suggestion programs. Equal-opportunity employment advances were made. Public affairs actions dealt extensively with communications about the nation's energy problems and with assistance to youth and education activities.

EMPLOYEES — More than 4,000 employee ideas for reducing costs and improving operations were adopted through the Suggestion Plan. Many suggestions led to conserving fuels and increasing output of products in short supply.

The safety record of employees continued to be better than the average for the petroleum industry, which itself had a safety record better than that of industry generally. The accident frequency rate dropped about 12% from the 1972 rate.

Our industrial hygiene program was broadened with addition of an occupational environment research laboratory at our Bartlesville Medical Center. Industrial hygienists make regular on-site evaluations of working areas to protect employees against harmful levels of dusts, fumes, and vapors, extreme levels of noise or temperature, and skin contact with strong chemicals.

In January 1973, Phillips granted general wage increases to most employees covered by overtime payment laws. Several employee benefit plans were improved.

■ **Equal Opportunity** — Phillips continued to provide more and better employment opportunities for racial minorities, women, veterans, and the disadvantaged. Employment of blacks in corporate offices was increased substantially during the year, and minority opportunities were improved elsewhere.

MANAGEMENT CHANGES — The Board of Directors on December 10 accepted the resignation of John M. Houchin as Chairman of the Board effective January 1, 1974, when he reached mandatory employee retirement age. Mr. Houchin, who had more than 40 years of Company service, remained a member of the Board of Directors.

W. F. Martin, President and chief executive officer, was elected Chairman of the Board and chief executive officer and Wm. C. Douce, Executive Vice President and Chairman of the Executive Committee, was elected President, both effective January 1, 1974.

Coincidentally, the office of Chairman of the Executive Committee was abolished and its function assumed by the President.

J. W. Davison, Vice Chairman of the Operating Committee, was promoted to chairman of the committee on October 12, 1973, succeeding Harry D. Brookby in that capacity.

Following studies carried on in 1973, a major reorganization of the Company's basic structure was begun on January 14, 1974, to improve our ability to operate and compete worldwide in the energy and chemical industries. The Company's operations were consolidated into three worldwide business groups — Natural Resources, Petroleum Products, and Chemicals. Increased accountability for profits was established at lower organizational levels, and greater emphasis was placed on long-range planning, budgeting, and management control.

Coincident with the announcement of the reorganization, the Board

of Directors elected the following executives to new positions: Harry D. Brookby, Senior Vice President, to Executive Vice President, Planning and Budgeting; C. M. Kittrell, Senior Vice President, to Executive Vice President, Petroleum Products Group; L. H. Johnstone, Vice President, Chemicals, to Executive Vice President, Chemicals Group, and member of the Board and Executive Committee; Lloyd G. Minter and Robert N. Sears, both Vice Presidents, to Senior Vice Presidents, with Mr. Minter continuing as General Counsel and Mr. Sears as head of the New York Office; Glenn A. Cox, Assistant to the Chairman of the Operating Committee, to Vice President, Management Information and Control; and Kenneth Heady, Associate General Counsel, to Vice President, Gas and Gas Liquids Division, Natural Resources Group, replacing LeRoy Culbertson who became Vice President, Planning and Budgeting, in that group.

PUBLIC AFFAIRS — Energy issues continued to be the primary focus of public affairs activities and were the main themes of executive speeches, articles, and other corporate messages. A private enterprise economy free of restrictive government controls was stressed as the prerequisite to achieving the national goal of energy self-sufficiency.

The Phillips Petroleum Foundation, Inc. was formed to administer the Company's long-standing program of financial assistance to education and social organizations. Nearly two thirds of the Company's 1973 charitable contributions went toward education and youth activities. The Company began national sponsorship of the Amateur Athletic Union (AAU) senior swimming program.

research

The Company's emphasis on strengthening its natural resource position was reflected in research to improve energy exploration methods and increase yields from producing fields. Development of fuels to meet engine requirements of future automobiles, chemical products with improved qualities and for new uses, and processes to further upgrade our petroleum feedstocks also highlighted the year's research work.

■ **Exploration and Production Research** — Measurement of the "remanent magnetism" present in well core samples was added to methods Phillips employs in exploration operations. Because sedimentary rock contains a remnant of the magnetic conditions present at the time and place it was formed, measuring this magnetism with high-sensitivity instruments aids in evaluation of the petroleum-bearing potential of underground structures.

Advanced geochemical methods were developed for use in the search for geothermal deposits. Through detailed evaluation of water samples from streams or wells, researchers can determine whether the water has been in contact with hot rock. This information, when combined with geophysical data, has been used in exploring for geothermal deposits in California and Utah.

Phillips stepped up its programs to increase oil recovery from older fields, which on average yield only about 30% of their total oil.

Company-developed polymer fluids were used successfully in fields undergoing waterflood recovery. The polymers, which assume a consistency similar to that of dessert gelatin after injection into the formation, plug the larger rock pores and divert the pressurized water into smaller openings, forcing out oil. In field tests of one new polymer fluid, production from wells was increased by 10 to 15 barrels of oil per day over a two-year period.

■ **Motor Fuels Research** — Recognizing that future automobiles will need fuels and lube oils having different properties than do present ones in order to match changes in car design, extensive laboratory and road tests were conducted on prototypes of these future cars. That work has provided Phillips with the requisite background to adjust gasoline and oil quality as required by mass production of such automobiles.

As a result of recent research in motor fuel, Phillips has been able to make a better match between octane levels and engine requirements, thus extending energy resources.

■ **New Product Research** — Longer wearing tire tread rubbers were perfected and several grades of rubbers were developed that do not require vulcanization to impart strength and elasticity. These "thermoplastic" rubbers can be used in adhesives, shoes, toys, floor moldings, and other household and industrial items.

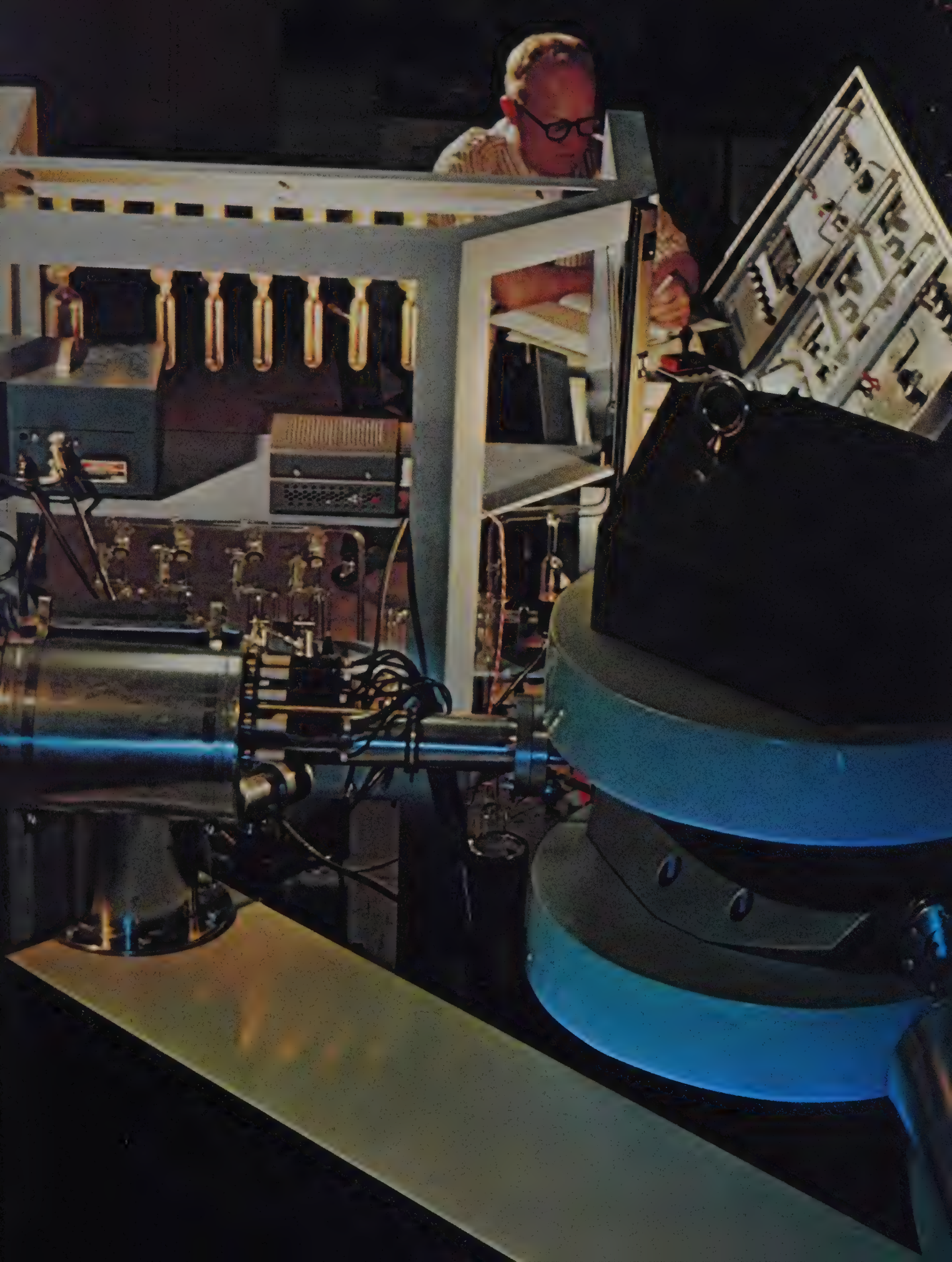
After several years of laboratory work, the Company began feedlot testing of a synthetic protein animal feed supplement. The protein, made from a petroleum-derived raw material, could be adapted to human diets in protein-starved areas of the world.

Responding to the increasing demand for benzene, toluene, and xylene, Phillips developed a more economical process to extract these aromatic chemicals from refinery streams and purify them. They are used in the manufacture of such products as synthetic rubber and fibers and polystyrene plastics.

A water-based asphalt emulsion was developed to replace the old "cut-back" asphalt which used hydrocarbon materials as thinning agents. The new emulsion is more economical, releases no air pollution during evaporation, and allows the hydrocarbon materials to be applied to energy uses.

■ **Patents and Licensing** — For the sixth straight year, Phillips ranked first among oil companies in the number of U. S. patents issued during the year with 329. At year-end, Phillips owned 6,477 active U. S. patents, second in the industry. The Company was issued 331 patents in 29 countries outside the U. S. Licensing income was the highest in the Company's history.

This new instrument in our research laboratories helps estimate petroleum producing potentials of formations from geologic samples, prior to leasing and drilling.



PHILLIPS PETROLEUM COMPANY
CONSOLIDATED BALANCE SHEETS AT DECEMBER 31

		1973	1972
ASSETS	Current Assets:		
	Cash, including time deposits	\$ 372,970,000	\$ 287,718,000
	Short-term investments, at cost	68,162,000	50,764,000
	Notes and accounts receivable—		
	(less reserves: 1973—\$11,592,000; 1972—\$11,418,000)	502,695,000	383,854,000
	Inventories—Note 1:		
	Crude oil, petroleum products, chemicals, and merchandise	239,032,000	245,764,000
	Materials and supplies	49,851,000	35,093,000
	Total Current Assets	1,232,710,000	1,003,193,000
	Investments and Long-Term Receivables—		
	(less reserves: 1973—\$10,806,000; 1972—\$9,732,000)—Notes 1 and 2	379,801,000	377,825,000
	Properties, Plants, and Equipment, at cost, less reserves—Note 3	1,952,258,000	1,857,831,000
	Prepaid and Deferred Charges	42,004,000	30,770,000
		<u>\$3,606,773,000</u>	<u>\$3,269,619,000</u>
LIABILITIES AND STOCKHOLDERS' EQUITY	Current Liabilities:		
	Notes payable	\$ 18,760,000	\$ 6,335,000
	Accounts payable	381,894,000	270,159,000
	Long-term debt due within one year	60,618,000	52,657,000
	Accrued taxes	117,699,000	113,145,000
	Other accruals	41,780,000	40,641,000
	Total Current Liabilities	620,751,000	482,937,000
	Long-Term Debt—Note 4	799,142,000	791,829,000
	Deferred Credits:		
	Income taxes—Note 5	64,199,000	61,484,000
	Other	63,301,000	41,874,000
	Total Deferred Credits	127,500,000	103,358,000
	Reserve for Contingencies	90,351,000	66,951,000
	Minority Interest in Consolidated Subsidiaries	5,444,000	4,721,000
	Stockholders' Equity:		
	Common stock, \$2.50 par value—Note 6:		
	Shares authorized—100,000,000		
	Shares issued—(1973—76,261,836; 1972—76,243,716)	190,655,000	190,609,000
	Capital in excess of par value of common stock—Note 6	444,024,000	440,806,000
	Earnings employed in the business	1,343,927,000	1,211,711,000
		<u>1,978,606,000</u>	<u>1,843,126,000</u>
	Less treasury stock, at cost—		
	(1973—552,440 shares; 1972—857,005 shares)—Note 6	15,021,000	23,303,000
	Total Stockholders' Equity	1,963,585,000	1,819,823,000
		<u>\$3,606,773,000</u>	<u>\$3,269,619,000</u>

PHILLIPS PETROLEUM COMPANY
CONSOLIDATED STATEMENTS OF INCOME AND EARNINGS EMPLOYED IN THE BUSINESS

	1973	1972
Revenues:		
Gross operating revenues	\$2,989,952,000	\$2,512,742,000
Equity in earnings of non-consolidated companies	40,907,000	21,487,000
Other revenues	42,679,000	33,301,000
	<u>3,073,538,000</u>	<u>2,567,530,000</u>
Costs and Expenses:		
Costs and operating expenses	2,088,039,000	1,711,011,000
Selling, general, and administrative expenses	290,505,000	298,109,000
Depreciation, depletion, amortization, and retirements	238,886,000	223,099,000
Taxes other than income taxes*—Note 5	69,011,000	63,880,000
Interest and expense on indebtedness	62,338,000	58,846,000
Provision for income taxes—Note 5	94,348,000	64,157,000
	<u>2,843,127,000</u>	<u>2,419,102,000</u>
Net Income	230,411,000	148,428,000
Earnings Employed in the Business at Beginning of Year	1,211,711,000	1,160,881,000
	<u>1,442,122,000</u>	<u>1,309,309,000</u>
Dividends Paid (\$1.30 a share)	98,195,000	97,598,000
Earnings Employed in the Business at End of Year	<u>\$1,343,927,000</u>	<u>\$1,211,711,000</u>
Net Income Per Share of Common Stock	\$ 3.05	\$ 1.98

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

SOURCE OF FUNDS	Net income	\$230,411,000	\$ 148,428,000
	Depreciation, depletion, amortization, and retirements	238,886,000	223,099,000
	Deferred income taxes	2,715,000	(1,512,000)
	Other (including equity in undistributed earnings of non-consolidated companies)	(2,667,000)	(2,570,000)
	Funds from operations	<u>469,345,000</u>	<u>367,445,000</u>
	Long-term debt	80,650,000	49,726,000
	Property sales and retirements	24,800,000	28,558,000
	Sales of investments	9,551,000	26,186,000
	Capital stock	11,546,000	19,808,000
	Other	19,794,000	4,026,000
		<u>\$615,686,000</u>	<u>\$ 495,749,000</u>
APPLICATION OF FUNDS	Capital expenditures	\$328,957,000	\$ 264,696,000
	Investments	22,726,000	6,224,000
	Reduction in long-term debt	73,337,000	58,088,000
	Cash dividends	98,195,000	97,598,000
	Increase in working capital	91,703,000	62,365,000
	Other	768,000	6,778,000
		<u>\$615,686,000</u>	<u>\$ 495,749,000</u>
WORKING CAPITAL CHANGES	Cash	\$ 85,252,000	\$ 99,729,000
	Short-term investments	17,398,000	13,638,000
	Notes and accounts receivable	118,841,000	1,109,000
	Inventories	8,026,000	(14,496,000)
	Total current assets	<u>229,517,000</u>	<u>99,980,000</u>
	Notes payable	12,425,000	(10,992,000)
	Accounts payable	111,735,000	33,000,000
	Long-term debt due within one year	7,961,000	500,000
	Accrued taxes and other accruals	5,693,000	15,107,000
	Total current liabilities	<u>137,814,000</u>	<u>37,615,000</u>
	Increase in working capital	<u>\$ 91,703,000</u>	<u>\$ 62,365,000</u>

*In addition, taxes of \$287,000,000 in 1973 and \$297,000,000 in 1972 were collected on the sale of petroleum products and paid to taxing agencies.

NOTES TO FINANCIAL STATEMENTS

NOTE 1—ACCOUNTING POLICIES

Principles of Consolidation—The consolidated statements include the accounts of companies owned more than 50%. Investments in companies owned 20% to 50%, inclusive, and in corporate joint ventures are accounted for using the equity method. Investments in other companies are carried at cost.

Foreign Currency Translation—Current assets and liabilities recorded in foreign currencies are translated into dollars at exchange rates in effect at year-end. All other foreign assets and liabilities, in general, are translated at exchange rates in effect when acquired or incurred. Revenues, costs, and expenses are translated at approximate rates in effect during the period of the transactions, except for depreciation, depletion, amortization, and retirements, which are translated on the same basis as the related assets. Net unrealized translation losses are charged against income; net unrealized translation gains are credited to a reserve for exchange losses. The same accounting applies for recording unrealized gains and losses on forward exchange contracts. Exchange adjustments arising from these procedures and the Company's exposure from future translation adjustments at December 31, 1973, are not material.

Inventories—Crude oil, petroleum products, and chemicals are priced at cost, which is lower than market in the aggregate, mainly on the last-in, first-out annual basis. Prior to 1973, inventories of certain petroleum products and chemicals were calculated by the last-in, first-out monthly basis. This change, which had no material effect on 1973 net income, results in a closer association of current costs with income, follows the method generally practiced in the petroleum industry, and conforms financial and tax inventory methods. The cumulative effect of this accounting change on prior years is impracticable to determine.

Materials and supplies are priced at average cost or replacement cost, with allowance for condition of used material.

Depreciation and Depletion—Depreciation of properties, plants, and equipment subject thereto, is determined by the group straight-line method, individual unit straight-line method, and the unit of production method, applying the method considered most appropriate for each type of property. Leasehold costs of producing properties and the intangible development costs of productive wells are amortized on the unit of production method based on estimated recoverable oil and gas reserves.

Exploratory Costs—Undeveloped oil and gas leaseholds are capitalized and that portion of the costs applicable to properties which it is estimated will be surrendered is amortized over the estimated holding period. Dry holes

and undeveloped lease rentals are expensed. Geological and geophysical costs resulting in the acquisition or retention of leases are capitalized with the remainder being expensed.

Property Dispositions—When complete units of depreciable property are retired or are sold for continued use, reserves are reduced by the applicable amounts and any profit or loss is credited or charged to income. When less than complete units of depreciable property are retired or disposed of, the difference between asset cost and salvage value is charged or credited to the reserve for depreciation.

Maintenance and Repairs—Maintenance and repairs are charged against income. Major renewals and replacements are charged to property accounts, and the assets replaced are retired.

Research and Development Expenses—Research and development expenses are charged against income as incurred.

Investment Tax Credits—Investment tax credits are applied as a reduction of the provision for income taxes in the years used.

NOTE 2—INVESTMENTS

Investments at December 31, 1973, include 10,326,321 shares of common stock of Pacific Petroleum Ltd. ("Pacific"), representing 48.43% of the total shares outstanding. These securities had a carrying value of \$174,844,000 and a quoted market value of \$312,371,000 at December 31, 1973, which does not purport to be realizable value. At the same date, net assets of Pacific in Canadian dollars amounted to \$284,308,000, which consists of current assets \$83,222,000, net property, plant and equipment \$387,013,000, investments \$55,326,000, other assets \$2,810,000, current liabilities \$24,273,000, long-term debt \$144,365,000, and provision for future income tax \$75,425,000. Earnings of Pacific for 1973 in Canadian dollars were \$30,188,000.

NOTE 3—PROPERTIES, PLANTS, AND EQUIPMENT

The Company's investment in properties, plants, and equipment is summarized as follows:

	December 31	
	1973	1972
Production.....	\$2,071,594,000	\$1,902,962,000
Manufacturing.....	1,363,425,000	1,314,438,000
Transportation.....	316,191,000	286,212,000
Marketing.....	274,704,000	314,285,000
Other.....	98,352,000	96,183,000
	4,124,266,000	3,914,080,000
Less depreciation, depletion, and amortization..	2,172,008,000	2,056,249,000
	<u>\$1,952,258,000</u>	<u>\$1,857,831,000</u>

NOTE 4—LONG-TERM DEBT

Long-term debt due after one year at December 31, 1973, consists of the following:

7½% Debentures Due 2001.....	\$199,129,000
6% Guaranteed Sinking Fund Debentures Due 1981.....	16,027,000
5½% Guaranteed Swiss Bonds due 1983.....	13,838,000
First Mortgage and Leasehold 3% Sinking Fund Bonds due 1975...	480,000
Notes payable to banks, insurance companies, and others:	
At 4%-5%, due 1975-1989.....	40,376,000
At 5½%-6½%, due 1975-1991.....	357,978,000
At ¾%-1% above the weighted average of respective London Inter-Bank offering rates, due 1975-1983.....	101,490,000
At 7%-13½%, due 1975-1984.....	42,658,000
Purchase obligations.....	27,166,000
	<u>\$799,142,000</u>

Maturities of long-term debt for the next five years are: 1974—\$60,618,000 (included in current liabilities); 1975—\$48,371,000; 1976—\$56,552,000; 1977—\$70,747,000; 1978—\$65,695,000.

Arrangements existed at year end for a subsidiary to borrow an additional \$52,012,000 to finance its portion of the development of new oil fields in the North Sea. Generally, repayments of such loans would commence in November 1975 and continue through 1980.

NOTE 5—TAXES

	1973	1972
Operating taxes		
Property.....	\$ 30,248,000	\$ 30,864,000
Gross production.....	14,618,000	13,417,000
Social security.....	17,067,000	13,367,000
Other.....	7,078,000	6,232,000
	<u>69,011,000</u>	<u>63,880,000</u>
Income taxes		
Federal		
Current.....	42,830,000	40,928,000
Deferred.....	(1,307,000)	(3,219,000)
Foreign		
Current.....	39,819,000	19,399,000
Deferred.....	4,022,000	1,707,000
State.....	8,984,000	5,342,000
	<u>94,348,000</u>	<u>64,157,000</u>
Total taxes charged to income.....	163,359,000	128,037,000
Excise taxes collected on the sale of petroleum products and paid to taxing agencies.....	287,000,000	297,000,000
	<u>\$450,359,000</u>	<u>\$425,037,000</u>

The amount of investment tax credit applied as a reduction of the current provision for Federal income taxes was \$10,254,000 in 1973 and \$6,103,000 in 1972.

Income taxes have not been accrued on \$142,923,000 of the Company's equity in undistributed earnings of certain subsidiaries and corporate joint ventures because of reinvestment plans for such funds.

NOTE 6—COMMON STOCK

The Company's restricted stock option plan was terminated December 31, 1963, except for the options then outstanding. At January 1, 1973, options expiring April 30, 1973 were outstanding to 48 key employees to purchase 18,120 shares at \$27 a share. During the year, these options were exercised for an aggregate of \$489,240.

Capital in excess of par value of common stock increased \$3,218,000 during 1973 from the exercise of stock options and the sale or exchange of 304,565 shares of treasury stock.

NOTE 7—LEASE RENTALS, COMMITMENTS, AND CONTINGENT LIABILITIES

Rentals on leases covering bulk and service stations, tank cars, office space, and other facilities entering into the determination of net income for 1973 and 1972, follow:

	1973	1972
Financing leases		
Basic rentals.....	\$43,122,000	\$44,523,000
Contingent rentals.....	3,795,000	3,742,000
Other leases		
Basic rentals.....	32,626,000	31,898,000
Contingent rentals.....	186,000	184,000
Total rentals.....	79,729,000	80,347,000
Less subleasing income.....	28,262,000	30,155,000
Net rentals.....	<u>\$51,467,000</u>	<u>\$50,192,000</u>

Contingent rentals relate to bulk and service stations and are generally based on the volume of motor fuel sold. Most station leases have renewal options for varying periods at monthly rentals at least equal to the rentals paid during the primary term of the lease. Some of these leases include purchase options exercisable after a specified number of years.

At December 31, 1973, basic rental commitments under noncancelable leases were as follows:

	Basic Rental Commitments (Net of Subleasing Income)		Subleasing Income	
	All Leases	Financing Leases	All Leases	Financing Leases
	(Thousands of Dollars)			
1974.....	\$ 39,996	\$ 36,444	\$ 10,858	\$ 8,761
1975.....	38,916	36,072	10,523	8,592
1976.....	37,512	35,606	10,094	8,229
1977.....	35,851	34,816	9,319	7,575
1978.....	34,174	33,392	8,719	7,117
1979-1983.....	147,443	147,518	30,584	24,638
1984-1988.....	96,852	97,356	9,152	7,708
1989-1993.....	40,854	40,536	587	426
Remaining years.....	10,307	9,072	5	5
Total.....	<u>\$481,905</u>	<u>\$470,812</u>	<u>\$ 89,841</u>	<u>\$ 73,051</u>

Basic rental commitments (net of subleasing income) at December 31, 1973 for all leases by class of property were:

	Production	Manufacturing	Marketing	Other	Total
	(Thousands of Dollars)				
1974.....	\$ 4,529	\$ 2,724	\$ 30,403	\$ 2,340	\$ 39,996
1975.....	4,521	2,676	29,727	1,992	38,916
1976.....	4,515	2,529	28,871	1,597	37,512
1977.....	4,508	2,297	27,890	1,156	35,851
1978.....	4,504	2,295	26,328	1,047	34,174
1979-1983.....	22,063	7,675	115,368	2,337	147,443
1984-1988.....	15,716	5,902	75,202	32	96,852
1989-1993.....	27	2,847	37,949	31	40,854
Remaining years...	131	504	9,241	431	10,307
Total.....	<u>\$60,514</u>	<u>\$29,449</u>	<u>\$380,979</u>	<u>\$10,963</u>	<u>\$481,905</u>

Present values of basic rental commitments and the related subleasing income for noncapitalized financing leases based on implied interest rates in the terms of the leases follow:

Property Classification	Present Values at December 31			
	1973		1972	
	Basic Rental Commitments	Subleasing Income	Basic Rental Commitments	Subleasing Income
	(Thousands of Dollars)			
Production.....	\$ 40,320	\$ 1,459	\$ 42,245	\$ 1,647
Manufacturing...	16,828	—	17,807	—
Marketing.....	300,496	55,360	320,852	60,559
Total.....	<u>\$357,644</u>	<u>\$56,819</u>	<u>\$380,904</u>	<u>\$62,206</u>

The weighted average interest rate used in determining the present values of basic rental commitments was 6.3% for both 1973 and 1972, with rates ranging from 2.8% to 9.8%.

The effect upon net income of capitalizing all noncapitalized financing leases is not presented since it is less than three percent of the average net income for the most recent three years.

At December 31, 1973, the Company was contingently liable for \$110,124,000 of obligations of other companies. In addition, the Company has contingent liabilities with respect to claims and commitments arising from agreements with pipeline companies in which it holds stock interests whereby it may be required to provide such companies with additional funds through advances against future charges for transportation of crude oil or petroleum products. A number of suits are also pending in various courts in which the parent company or a subsidiary appears as plaintiff or defendant, including a federal anti-trust proceeding seeking to force divestiture of the properties acquired from Tidewater Oil Company on July 14, 1966, in which the trial court has ruled that such acquisition was illegal and that some divestiture will be required, which ruling has been appealed to the U.S. Supreme Court. While it is impossible to estimate the ultimate liability in respect to contingent liabilities, the Company is of the opinion that the aggregate amount of such liabilities for which adequate provision has not been made is not significant in relation to total consolidated assets.

NOTE 8—RETIREMENT INCOME PLANS

The parent company and its subsidiaries have retirement plans covering substantially all of their employees. These plans are being funded based on pension costs accrued as determined by actuarial studies. Charges to income for such plans were \$18,613,000 for 1973 and \$17,575,000 for 1972, which include, as to certain of the plans, amortization of prior service costs over 25 year periods.

NOTE 9—INCENTIVE COMPENSATION PLAN

Under the Company's Incentive Compensation Plan, adopted in 1965, a provision of \$1,636,000, which was substantially less than the maximum permitted under the plan, was made against 1973 earnings in anticipation of awards to key employees in 1974. Earnings in 1972 included a provision of \$1,300,000 from which awards totaling \$963,000 were made in 1973.

NOTE 10—FOREIGN

The balance sheets include net assets applicable to operations in foreign countries in the approximate amounts of \$779,000,000 for 1973 and \$564,000,000 for 1972. Net income from such operations was \$89,304,000 for 1973 and \$22,720,000 for 1972.

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors
Phillips Petroleum Company

We have examined the accompanying consolidated balance sheet of Phillips Petroleum Company at December 31, 1973 and the related consolidated statements of income and earnings employed in the business and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have previously made a similar examination of the financial statements for the prior year.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Phillips Petroleum Company at December 31, 1973 and 1972 and the consolidated results of operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

ARTHUR YOUNG & COMPANY

Tulsa, Oklahoma
February 18, 1974

TEN-YEAR FINANCIAL REVIEW (dollars in millions, except per share amounts)

	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964
CONSOLIDATED BALANCE SHEETS										
AT DECEMBER 31										
Assets										
Current assets:										
Cash and short-term investments.....	\$ 441.1	338.5	225.1	137.1	187.4	135.4	147.1	176.2	93.9	89.7
Notes and accounts receivable, less reserves.....	502.7	383.8	382.8	410.6	392.3	388.3	351.5	303.2	219.4	192.6
Inventories:										
Crude oil, petroleum products, and chemicals.....	225.9	231.2	240.5	212.6	217.6	220.3	203.9	191.1	134.1	130.4
Merchandise.....	13.1	14.6	18.7	21.9	24.1	21.5	24.3	27.1	17.9	14.5
Materials and supplies.....	49.9	35.1	36.1	35.7	31.2	29.6	30.8	31.5	25.5	22.0
Total current assets.....	1,232.7	1,003.2	903.2	817.9	852.6	795.1	757.6	729.1	490.8	449.2
Investments and long-term receivables, less reserves.....	379.8	377.8	391.8	361.6	383.5	332.1	317.8	311.7	309.3	278.5
Properties, plants, and equipment, less reserves.....	1,952.3	1,857.8	1,838.0	1,850.5	1,846.4	1,749.9	1,709.7	1,657.9	1,208.7	1,131.1
Prepaid and deferred charges.....	42.0	30.8	33.7	41.5	39.9	36.4	29.6	32.4	20.3	16.4
Total assets.....	<u>3,606.8</u>	<u>3,269.6</u>	<u>3,166.7</u>	<u>3,071.5</u>	<u>3,122.4</u>	<u>2,913.5</u>	<u>2,814.7</u>	<u>2,731.1</u>	<u>2,029.1</u>	<u>1,875.2</u>
Liabilities and stockholders' equity										
Current liabilities:										
Notes payable.....	\$ 18.8	6.3	17.3	32.4	21.4	27.1	45.6	56.5	—	—
Accounts payable.....	381.9	270.2	237.2	247.9	229.7	239.7	220.2	197.3	160.3	134.6
Long-term debt—due within one year.....	60.6	52.7	52.2	106.1	75.9	47.1	49.9	180.9	3.5	16.9
Accrued taxes.....	117.7	113.1	102.5	114.5	119.7	87.5	86.3	102.5	59.0	53.8
Other accruals.....	41.8	40.6	36.1	28.9	27.9	27.5	27.7	34.6	20.8	19.5
Total current liabilities.....	620.8	482.9	445.3	529.8	474.6	428.9	429.7	571.8	243.6	224.8
Long-term debt.....	799.1	791.8	800.2	687.9	787.4	655.2	690.0	660.3	333.7	260.6
Deferred income taxes.....	64.2	61.5	63.0	57.3	59.7	68.4	70.9	62.8	86.8	81.5
Other deferred credits.....	63.3	41.9	41.8	36.3	51.7	63.5	61.2	46.7	45.6	43.9
Reserve for contingencies.....	90.4	67.0	60.7	57.4	50.5	45.2	27.6	29.9	24.2	22.2
Minority interest in consolidated subsidiaries.....	5.4	4.7	6.5	9.9	21.1	15.6	15.9	11.9	—	—
Stockholders' equity:										
Common stock, \$2.50 par value.....	190.7	190.6	190.5	190.3	190.3	189.7	179.6	173.2	172.3	172.0
Capital in excess of par value of common stock.....	444.0	440.8	437.2	433.3	433.3	427.4	329.2	271.9	264.2	261.6
Earnings employed in the business.....	1,343.9	1,211.7	1,160.9	1,125.4	1,110.4	1,076.5	1,067.9	961.1	918.2	859.0
	<u>1,978.6</u>	<u>1,843.1</u>	<u>1,788.6</u>	<u>1,749.0</u>	<u>1,734.0</u>	<u>1,693.6</u>	<u>1,576.7</u>	<u>1,406.2</u>	<u>1,354.7</u>	<u>1,292.6</u>
Less treasury stock.....	15.0	23.3	39.4	56.1	56.6	56.9	57.3	58.5	59.5	50.4
Total stockholders' equity.....	<u>1,963.6</u>	<u>1,819.8</u>	<u>1,749.2</u>	<u>1,692.9</u>	<u>1,677.4</u>	<u>1,636.7</u>	<u>1,519.4</u>	<u>1,347.7</u>	<u>1,295.2</u>	<u>1,242.2</u>
Total liabilities and stockholders' equity.....	<u>3,606.8</u>	<u>3,269.6</u>	<u>3,166.7</u>	<u>3,071.5</u>	<u>3,122.4</u>	<u>2,913.5</u>	<u>2,814.7</u>	<u>2,731.1</u>	<u>2,029.1</u>	<u>1,875.2</u>
Stockholders' equity per share*.....	\$ 25.94	24.14	23.40	22.86	22.66	22.18	21.79	20.08	19.41	18.56

CONSOLIDATED STATEMENTS OF PROPERTIES, PLANTS, AND EQUIPMENT

Gross investment

Production.....	\$2,071.6	1,903.0	1,796.4	1,749.5	1,729.6	1,587.8	1,495.9	1,460.6	1,390.7	1,342.8
Manufacturing.....	1,363.4	1,314.4	1,284.6	1,229.7	1,165.1	1,112.8	1,065.2	967.6	669.9	629.5
Transportation.....	316.2	286.2	276.1	279.7	278.6	276.1	271.6	272.2	195.3	191.5
Marketing.....	274.7	314.3	326.5	337.5	329.7	323.4	346.9	347.7	188.4	168.6
Other.....	98.4	96.2	95.9	96.4	93.1	93.4	88.4	97.2	79.8	76.6
	<u>4,124.3</u>	<u>3,914.1</u>	<u>3,779.5</u>	<u>3,692.8</u>	<u>3,596.1</u>	<u>3,393.5</u>	<u>3,268.0</u>	<u>3,145.3</u>	<u>2,524.1</u>	<u>2,409.0</u>

Net investment

Production.....	\$ 919.8	816.4	756.7	743.2	745.5	651.3	598.4	593.3	600.8	557.5
Manufacturing.....	649.0	661.8	684.8	682.9	668.9	660.2	644.0	567.9	323.7	304.4
Transportation.....	152.0	126.5	125.6	135.2	142.8	146.9	150.9	161.2	101.5	103.5
Marketing.....	185.5	205.6	221.2	237.5	237.8	238.0	265.6	274.4	137.0	122.2
Other.....	46.0	47.5	49.7	51.7	51.4	53.5	50.8	61.1	45.7	43.5
	<u>1,952.3</u>	<u>1,857.8</u>	<u>1,838.0</u>	<u>1,850.5</u>	<u>1,846.4</u>	<u>1,749.9</u>	<u>1,709.7</u>	<u>1,657.9</u>	<u>1,208.7</u>	<u>1,131.1</u>

*Adjusted for two-for-one stock split in 1969.

Note—Financial data for 1970, 1969, 1968 and 1967 have been restated to reflect the adoption in 1971 of equity accounting for investments.

	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964
CONSOLIDATED STATEMENTS OF INCOME										
Gross operating revenues:										
Petroleum products.....	\$1,388.7	1,233.7	1,188.2	1,146.2	1,067.8	1,044.2	999.0	868.7	682.3	639.5
Chemicals, fibers, and fabricated products.....	807.1	589.6	495.0	477.2	472.7	446.6	398.2	357.2	306.7	271.2
Crude oil.....	416.5	327.2	320.8	293.2	338.0	304.4	276.9	253.8	213.3	188.2
Natural gas (including helium).....	183.9	180.4	169.3	165.2	137.8	133.8	137.5	129.9	122.3	119.9
Other sales and services.....	193.8	181.8	189.9	191.3	185.7	177.9	170.0	150.7	126.1	122.7
Total gross operating revenues.....	2,990.0	2,512.7	2,363.2	2,273.1	2,202.0	2,106.9	1,981.6	1,760.3	1,450.7	1,341.5
Other revenues (including equity in earnings of non-consolidated companies).....	83.5	54.8	49.1	38.2	30.0	20.3	31.7	24.1	14.0	11.3
Total revenues.....	3,073.5	2,567.5	2,412.3	2,311.3	2,232.0	2,127.2	2,013.3	1,784.4	1,464.7	1,352.8
Costs and operating expenses.....	2,088.0	1,711.0	1,615.3	1,541.2	1,486.7	1,410.4	1,276.1	1,124.6	942.3	878.0
Selling, general, and administrative expenses.....	290.5	298.1	288.3	288.0	270.5	267.9	245.9	223.8	166.9	154.4
Depreciation, depletion, amortization, and retirements....	238.9	223.1	201.3	198.4	195.1	187.0	170.1	158.1	140.9	125.8
Taxes other than income taxes.....	69.0	63.9	59.7	57.6	53.8	51.8	49.3	42.3	33.7	31.7
Interest and expense on indebtedness.....	62.3	58.8	62.6	54.2	49.6	40.5	43.0	32.0	15.0	10.7
Provision for income taxes.....	94.4	64.2	52.8	52.0	46.2	42.7	64.4	65.2	38.2	37.2
Total costs and expenses.....	2,843.1	2,419.1	2,280.0	2,191.4	2,101.9	2,000.3	1,848.8	1,646.0	1,337.0	1,237.8
Income before extraordinary items.....	230.4	148.4	132.3	119.9	130.1	126.9	164.5	138.4	127.7	115.0
Extraordinary items.....	—	—	—	(8.7)	—	6.9	—	7.1	—	—
Net income.....	230.4	148.4	132.3	111.2	130.1	133.8	164.5	145.5	127.7	115.0
Per average share outstanding*:										
Income before extraordinary items.....	\$ 3.05	1.98	1.78	1.62	1.76	1.74	2.38	2.07	1.91	1.73
Net income.....	\$ 3.05	1.98	1.78	1.50	1.76	1.83	2.38	2.18	1.91	1.73
Dividends per share*.....	\$ 1.30	1.30	1.30	1.30	1.30	1.27½	1.17½	1.10	1.02½	1.00
Income before extraordinary items:										
As percent of average total assets.....	6.9	4.6	4.3	3.9	4.4	4.5	5.9	6.0	6.5	6.3
As percent of total revenues.....	7.5	5.8	5.5	5.2	5.8	6.0	8.2	7.8	8.7	8.5
Percent of total revenues from outside U. S.....	21.5	16.1	17.4	13.4	12.2	11.1	9.3	8.9	9.0	7.1

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

Source										
Income before extraordinary items.....	\$ 230.4	148.4	132.3	119.9	130.1	126.9	164.5	138.4	127.7	115.0
Depreciation, depletion, amortization, and retirements....	238.9	223.1	201.3	198.4	195.1	187.0	170.1	158.1	140.9	125.8
Deferred income taxes.....	2.7	(1.5)	5.7	(2.5)	(8.7)	6.6	2.5	(1.4)	5.4	8.5
Other (including equity in undistributed earnings of non-consolidated companies).....	(2.7)	(2.6)	(6.6)	.8	.9	(3.0)	2.4	8.7	7.3	2.3
Funds from operations.....	469.3	367.4	332.7	316.6	317.4	317.5	339.5	303.8	281.3	251.6
Long-term debt.....	80.6	49.7	257.0	10.0	210.9	152.0	136.1	432.0	77.6	59.6
Property sales and retirements (including extraordinary items).....	24.8	28.6	43.7	31.1	27.1	47.9	55.3	14.7	8.0	7.9
Sales of investments (including extraordinary items).....	9.6	26.2	14.3	23.1	5.3	32.9	19.7	19.6	4.9	18.9
Capital stock.....	11.6	19.8	20.8	.5	6.8	108.7	64.9	9.6	(6.2)	(43.5)
Other.....	19.8	4.0	6.5	2.8	17.4	8.0	44.8	.7	1.6	11.9
	615.7	495.7	675.0	384.1	584.9	667.0	660.3	780.4	367.2	306.4
Application										
Capital expenditures:										
Production.....	\$ 245.0	196.0	143.3	132.3	207.3	171.6	117.5	136.0	144.8	109.4
Manufacturing.....	49.7	48.5	58.3	74.5	77.8	85.0	136.3	230.9	50.5	44.8
Transportation.....	24.8	11.4	7.8	6.2	6.5	8.5	1.3	68.6	5.3	14.4
Marketing.....	6.7	6.1	11.3	20.7	21.8	17.4	19.1	125.6	26.3	20.9
Other.....	2.8	2.7	4.3	5.7	3.2	6.7	5.6	18.6	5.5	5.5
Total capital expenditures.....	329.0	264.7	225.0	239.4	316.6	289.2	279.8	579.7	232.4	195.0
Investments.....	22.7	6.2	23.2	7.2	66.1	18.9	18.0	32.4	31.7	23.5
Reduction in long-term debt.....	73.3	58.1	144.7	109.5	78.8	186.8	106.4	185.8	4.5	.6
Cash dividends.....	98.2	97.6	96.8	96.3	96.2	92.7	81.1	73.5	68.6	67.8
Increase (decrease) in working capital.....	91.7	62.4	169.7	(89.9)	11.8	38.3	170.6	(122.3)	22.8	5.5
Other.....	.8	6.7	15.6	21.6	15.4	41.1	4.4	31.3	7.2	14.0
	615.7	495.7	675.0	384.1	584.9	667.0	660.3	780.4	367.2	306.4

*Adjusted for two-for-one stock split in 1969.

Note—Financial data for 1970, 1969, 1968 and 1967 have been restated to reflect the adoption in 1971 of equity accounting for investments.

	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964
REVENUES FROM CHEMICALS, FIBERS, AND FABRICATED PRODUCTS										
Plastic resins.....	\$ 94.9	62.4	51.5	51.2	50.0	41.8	33.0	30.5	24.3	18.7
Rubber chemicals.....	111.4	91.7	83.7	72.1	69.6	70.2	59.4	62.6	58.8	58.8
Fertilizers.....	158.0	100.6	90.9	71.8	69.3	67.5	74.1	82.6	59.7	50.2
Special products.....	181.7	131.7	112.1	130.5	129.2	113.3	94.1	84.0	78.2	67.0
Synthetic fibers.....	151.1	103.2	70.2	57.6	59.3	50.1	31.8	7.0	—	—
Fabricated products.....	110.0	100.0	86.6	94.0	95.3	103.7	105.8	90.5	85.7	76.5
	<u>807.1</u>	<u>589.6</u>	<u>495.0</u>	<u>477.2</u>	<u>472.7</u>	<u>446.6</u>	<u>398.2</u>	<u>357.2</u>	<u>306.7</u>	<u>271.2</u>

OTHER DATA

Shares outstanding at year end—thousands*	75,709	75,387	74,741	74,062	74,041	73,776	69,717	67,118	66,739	66,929
Number of stockholders at year end.....	135,966	153,292	166,012	172,979	157,052	145,665	139,670	139,224	137,739	137,589
Total payroll including employee benefits.....	\$ 415.1	387.3	352.8	335.0	326.8	328.9	312.3	281.8	248.9	237.6
Number of employees at year end.....	33,429	35,265	33,280	32,208	32,660	35,359	35,724	34,667	29,873	28,298

*Adjusted for two-for-one stock split in 1969.

TEN-YEAR OPERATING REVIEW

NET PRODUCTION OF LIQUID RAW

MATERIALS—thousands of barrels daily

Crude Oil

United States										
Texas.....	57.7	57.7	54.9	54.6	51.8	53.7	54.4	52.8	51.5	52.6
Louisiana.....	21.5	23.3	24.8	29.6	28.1	29.3	28.3	24.9	18.7	14.7
Oklahoma.....	13.7	17.5	15.6	15.5	16.2	17.7	20.0	22.4	23.7	23.9
New Mexico.....	8.0	9.0	9.8	10.4	10.3	10.3	10.1	10.3	9.2	8.8
Alaska.....	4.7	4.5	5.5	5.6	6.9	8.9	3.9	.2	—	—
Utah.....	3.1	3.8	3.0	3.3	3.4	4.0	3.1	1.8	1.5	1.9
Colorado.....	2.7	1.9	1.4	1.4	1.6	2.0	2.2	2.3	2.1	2.1
Other states.....	10.9	12.5	15.1	18.5	19.3	14.0	12.8	13.2	13.6	14.1
	<u>122.3</u>	<u>130.2</u>	<u>130.1</u>	<u>138.9</u>	<u>137.6</u>	<u>139.9</u>	<u>134.8</u>	<u>127.9</u>	<u>120.3</u>	<u>118.1</u>
Outside United States										
Canada.....	14.0	14.0	13.1	12.2	10.4	9.7	9.0	8.3	7.9	8.0
Latin America.....	23.8	20.2	20.2	21.3	22.0	26.4	34.0	36.1	34.8	30.6
Middle East.....	9.1	12.6	14.0	34.4	35.3	32.0	33.0	37.2	39.7	40.3
Africa.....	35.5	23.2	25.5	20.0	40.0	30.1	25.4	23.1	5.6	1.1
Europe.....	10.7	11.0	2.3	—	—	—	—	—	—	—
	<u>93.1</u>	<u>81.0</u>	<u>75.1</u>	<u>87.9</u>	<u>107.7</u>	<u>98.2</u>	<u>101.4</u>	<u>104.7</u>	<u>88.0</u>	<u>80.0</u>
Total crude oil.....	<u>215.4</u>	<u>211.2</u>	<u>205.2</u>	<u>226.8</u>	<u>245.3</u>	<u>238.1</u>	<u>236.2</u>	<u>232.6</u>	<u>208.3</u>	<u>198.1</u>

Natural Gas Liquids

United States.....	134.8	137.4	135.4	131.8	130.3	138.7	132.1	125.2	121.4	114.2
Canada.....	12.5	11.8	12.8	12.9	11.2	8.9	8.9	8.4	8.0	3.9
Latin America.....	2.3	2.4	2.6	2.2	1.1	1.2	1.2	1.2	1.4	1.4
Europe.....	.3	.3	.2	.2	—	—	—	—	—	—
Total natural gas liquids.....	<u>149.9</u>	<u>151.9</u>	<u>151.0</u>	<u>147.1</u>	<u>142.6</u>	<u>148.8</u>	<u>142.2</u>	<u>134.8</u>	<u>130.8</u>	<u>119.5</u>
Total all liquids.....	<u>365.3</u>	<u>363.1</u>	<u>356.2</u>	<u>373.9</u>	<u>387.9</u>	<u>386.9</u>	<u>378.4</u>	<u>367.4</u>	<u>339.1</u>	<u>317.6</u>

Note—Operating data for 1967 through 1973 include operating results, in proportion to the Company's stock interests, of non-consolidated companies owned 20% or more. Data prior to 1967 include the Company's interest in such companies owned one-third or more.

	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964
NET NATURAL GAS PRODUCTION— millions of cubic feet daily										
United States.....	1,481	1,534	1,566	1,591	1,436	1,429	1,460	1,397	1,330	1,336
Canada.....	222	200	179	179	155	127	116	96	87	79
Latin America.....	28	34	41	48	33	—	—	—	—	—
Europe.....	94	85	58	40	14	4	4	5	—	—
	<u>1,825</u>	<u>1,853</u>	<u>1,844</u>	<u>1,858</u>	<u>1,638</u>	<u>1,560</u>	<u>1,580</u>	<u>1,498</u>	<u>1,417</u>	<u>1,415</u>
WELL COMPLETIONS—Net										
United States—Exploratory.....	38	37	21	25	24	24	17	14	40	41
—Development.....	156	86	70	67	118	98	80	116	202	261
Outside United States—Exploratory.....	46	37	30	30	26	32	20	30	22	18
—Development.....	27	39	39	14	19	27	28	63	51	32
	<u>267</u>	<u>199</u>	<u>160</u>	<u>136</u>	<u>187</u>	<u>181</u>	<u>145</u>	<u>223</u>	<u>315</u>	<u>352</u>
OIL AND GAS WELLS—Net										
United States—Oil.....	5,806	5,795	6,004	6,316	6,457	6,387	6,590	6,808	6,873	6,879
—Gas and condensate.....	2,006	1,945	1,936	1,964	1,997	1,961	1,953	1,946	1,921	1,882
Outside United States—All wells.....	851	815	850	829	974	955	1,061	1,033	837	838
	<u>8,663</u>	<u>8,555</u>	<u>8,790</u>	<u>9,109</u>	<u>9,428</u>	<u>9,303</u>	<u>9,604</u>	<u>9,787</u>	<u>9,631</u>	<u>9,599</u>
NET OIL AND GAS ACREAGE—thousands of acres										
United States.....	6,792	5,793	5,382	5,275	4,728	4,618	4,333	4,666	4,995	5,030
Canada.....	7,444	6,967	6,507	6,273	5,862	4,600	3,563	3,476	2,808	2,349
Latin America.....	5,830	3,311	696	3,186	4,895	5,008	1,910	2,259	1,934	1,502
Europe.....	1,397	1,267	1,227	1,424	1,394	1,375	1,238	1,234	1,231	355
Africa.....	9,906	13,816	8,403	9,009	13,860	16,999	18,398	20,739	18,797	18,109
Middle East.....	3,031	2,893	13,852	13,852	12,762	12,787	2,102	638	638	311
Southeast Asia.....	37,348	31,018	38,852	47,106	57,627	40,000	—	—	—	—
Australia.....	6,072	5,969	6,272	7,290	9,290	10,833	16,978	26,690	24,383	19,164
	<u>77,820</u>	<u>71,034</u>	<u>81,191</u>	<u>93,415</u>	<u>110,418</u>	<u>96,220</u>	<u>48,522</u>	<u>59,702</u>	<u>54,786</u>	<u>46,820</u>
REFINERY RUNS—thousands of barrels daily										
United States—Crude oil.....	395	386	371	364	359	356	335	292	249	248
—Natural gas liquids.....	149	159	157	162	158	159	162	159	156	156
Outside United States—All liquids.....	66	64	77	93	88	87	68	58	38	32
	<u>610</u>	<u>609</u>	<u>605</u>	<u>619</u>	<u>605</u>	<u>602</u>	<u>565</u>	<u>509</u>	<u>443</u>	<u>436</u>
REFINERY CAPACITY—thousands of barrels daily										
United States—Crude oil.....	404	404	398	398	390	390	410	410	289	289
—Natural gas liquids.....	165	165	165	165	165	165	165	165	160	160
Outside United States—All liquids.....	85	81	100	100	148	147	97	119	56	46
	<u>654</u>	<u>650</u>	<u>663</u>	<u>663</u>	<u>703</u>	<u>702</u>	<u>672</u>	<u>694</u>	<u>505</u>	<u>495</u>
PETROLEUM PRODUCTS SOLD—thousands of barrels daily										
United States										
Automotive gasoline.....	299	323	311	314	294	279	252	222	188	183
Aviation fuels.....	27	27	27	35	38	36	36	25	21	25
Distillates—including kerosene.....	95	101	98	106	109	120	111	97	92	88
Liquefied petroleum gases.....	91	111	106	114	107	106	124	135	126	120
Other products.....	41	43	41	47	48	44	43	38	30	31
	<u>553</u>	<u>605</u>	<u>583</u>	<u>616</u>	<u>596</u>	<u>585</u>	<u>566</u>	<u>517</u>	<u>457</u>	<u>447</u>
Outside United States.....	137	128	141	131	132	114	83	65	41	37
Total.....	<u>690</u>	<u>733</u>	<u>724</u>	<u>747</u>	<u>728</u>	<u>699</u>	<u>649</u>	<u>582</u>	<u>498</u>	<u>484</u>
MARKETING OUTLETS.....	21,438	23,890	24,562	25,536	25,914	26,155	26,513	27,240	23,677	23,520

Note—Operating data for 1967 through 1973 include operating results, in proportion to the Company's stock interests, of non-consolidated companies owned 20% or more. Data prior to 1967 include the Company's interest in such companies owned one-third or more.

DIRECTORS

Harry D. Brookby,* Executive Vice President
Planning and Budgeting

Clark M. Clifford, senior partner in law firm of
Clifford, Warnke, Glass, McIlwain & Finney,
Washington, D. C.

Wm. C. Douce,* President

John M. Houchin, retired, Chairman of the Board
of Directors April 1, 1973, to January 1, 1974**

L. H. Johnstone,* Executive Vice President
Chemicals Group

W. W. Keeler, retired, Chairman of the Board
of Directors to April 1, 1973**

C. M. Kittrell,* Executive Vice President
Petroleum Products Group

W. F. Martin,* Chairman and
chief executive officer**

Lloyd G. Minter,* Senior Vice President
and General Counsel

William Piel, Jr., partner in law firm of
Sullivan & Cromwell, New York, New York

W. A. Roberts,* Executive Vice President
Natural Resources Group

Robert N. Sears, Senior Vice President

William I. Spencer, President of First National
City Bank and of First National City Corporation,
a financial institution, New York, New York

W. Clarke Wescoe, Chairman of the Board of
Directors of Sterling Drug, Inc.,
New York, New York

*Member Executive Committee

**On April 1, 1973, Mr. Houchin, formerly deputy chairman
and deputy chief executive officer, succeeded Mr. Keeler as
Chairman of the Board of Directors, and on January 1,
1974, was succeeded as Chairman by Mr. Martin, President
and chief executive officer during 1973.

PRINCIPAL OFFICERS AND MANAGERS†

(Located in Bartlesville unless otherwise noted)

W. F. Martin, Chairman of the Board of Directors
and chief executive officer

Wm. C. Douce, President

NATURAL RESOURCES GROUP

W. A. Roberts, Executive Vice President

Edwin Van den Bark, Vice President
Exploration and Production

LeRoy Culbertson, Vice President
Group Planning and Budgeting

Kenneth Heady, Vice President Gas and
Gas Liquids Division

Jack Tarter, Vice President North America
Exploration and Production Division

W. W. Dunn, Managing Director Latin America-Asia
Exploration and Production Division

C. J. Silas, Managing Director Europe-Africa
Exploration and Production Division (London)

W. R. Bohon, General Manager
Energy Minerals Division

Earl Guitar, Manager International Affairs
and Administration

PETROLEUM PRODUCTS GROUP

C. M. Kittrell, Executive Vice President

Geo. F. L. Bishop, Vice President Refining Division

John E. Harris, Jr., Vice President
Petroleum Supply Division

G. J. Morrison, Vice President Marketing Division

R. S. McConnell, President,
Applied Automation, Inc.

C. A. Mink, General Manager Europe-Africa
Petroleum Products Division (London)

D. B. Taylor, General Manager
Transportation Division

J. E. Arnold, Manager Group Planning
and Budgeting

W. E. Barr, Manager Group Administration

CHEMICALS GROUP

L. H. Johnstone, Executive Vice President

W. L. Phillips, Managing Director
International Chemicals

A. J. Head, President, Phillips Fibers Corporation
(Greenville, South Carolina)

Gary W. Davis, General Manager Petrochemical
and Supply Division

A. T. Gurmatakis, General Manager International
Chemicals Marketing and Development Division
(New York City)

W. D. Payton, General Manager Fertilizer Division

J. H. Presnell, General Manager International
Chemicals Operations Division

R. G. Rhodes, General Manager
Rubber Chemicals Division

K. L. Smalley, General Manager Europe-Africa
Chemicals Division (Brussels)

R. G. Wallace, General Manager
Plastics Division (Houston)

R. G. Askew, Manager Group Planning
and Budgeting

R. M. Dixon, Manager Group Administration

W. H. Guthrie, Manager Group Business Promotion

CORPORATE STAFF HEADS

Harry D. Brookby, Executive Vice President
Planning and Budgeting

Lloyd G. Minter, Senior Vice President
and General Counsel

Robert N. Sears, Senior Vice President
(New York City)

O. W. Armstrong, Vice President and Treasurer

P. M. Arnold, Vice President Research
and Development

Sloan K. Childers, Vice President Public Affairs

Glenn A. Cox, Vice President Management
Information and Control

Carstens Slack, Vice President Washington Office

W. R. Thomas, Vice President Human Resources

H. D. Trotter, Vice President Engineering
and Services

C. H. Trotter, Manager Management Services

OTHER EXECUTIVES

C. J. Roberts, Associate General Counsel

H. B. Stead, Comptroller

Harvey W. Thompson, Secretary

M. L. Collins, Manager Tax, Insurance, and Claims

Kieffer Davis, M.D., Medical Director

J. W. Davison, Chairman of the Operating Committee

M. R. Hayes, Manager General Services

R. L. Howard, Vice Chairman of
the Operating Committee

D. R. Hynes, Manager Purchasing

Myron O. Johnson, Manager Computing

W. R. Lusbey, Manager Aviation

†Gives effect to restructuring of Company's organization
on January 14, 1974.

PHILLIPS PETROLEUM COMPANY IN BRIEF

Founded in 1917 as a producer of crude oil and natural gasoline, Phillips Petroleum Company has grown into a major enterprise engaged in every phase of the petroleum industry and in many petrochemical activities. With total assets of \$3,606,800,000 the Company ranks ninth in size among United States oil companies. It has 33,429 employees and 135,966 registered stockholders.

Phillips 66 petroleum products are sold coast-to-coast through 21,200 outlets. The Company is a leading U. S. producer-marketer of liquefied petroleum gases. It has refining interests in five countries.

In the chemical industry, Phillips is a leading manufacturer of nitrogen fertilizers, synthetic rubber, carbon black, polyolefin plastics, and cyclohexane which is used for manufacture of nylon. It also manufactures and sells synthetic fibers, fabricated plastic products, and packaging. It has interests in chemical manufacturing and fabricating ventures in 17 countries.

Phillips is an industry leader in producing natural gas liquids. The Company has active exploration interests in 23 countries on six continents and interests in oil and gas reserves in eight countries. Its oil and gas reserves outside the United States have increased substantially in recent years. Besides the United States, the Company produces crude oil in Venezuela, Norwegian North Sea, Nigeria, Egypt, and Iran; and natural gas in Venezuela and the United Kingdom portion of the North Sea. Significant crude oil reserves have been discovered on the Alaskan North Slope. Through its 48% interest in Pacific Petroleums Ltd., Phillips participates in oil and gas exploration and production as well as in manufacture and sale of petroleum products in Canada.

The Phillips research organization has developed many new and improved products, processes, and methods. Currently, Phillips ranks second among all U. S. oil companies in number of U. S. patents held. Its process and product know-how is licensed in 27 countries.

PRINCIPAL SUBSIDIARIES AND AFFILIATES include the following:

APPLIED AUTOMATION, INC.
FIBERS INTERNATIONAL CORPORATION
PACIFIC PETROLEUMS LTD.
PETROCHIM
PHILLIPS FIBERS CORPORATION
PHILLIPS PETROLEUM COMPANY EUROPE-AFRICA
PHILLIPS PIPE LINE COMPANY
PHILLIPS PUERTO RICO CORE INC.
PHILTANKERS INC.

OFFICES

PRINCIPAL OFFICES

Bartlesville, Oklahoma 74004
80 Broadway, New York, New York 10005
306 South State Street, Dover, Delaware 19901

STOCK TRANSFER OFFICES

Phillips Petroleum Company
80 Broadway, New York, New York 10005
Phillips Petroleum Company
15 Exchange Place
Jersey City, New Jersey 07302
Montreal Trust Company
15 King Street West
Toronto 1, Ontario, Canada

REGISTRARS

Manufacturers Hanover Trust Company
40 Wall Street
New York, New York 10005
Canada Permanent Trust Company
1901 Yonge Street
Toronto 7, Ontario, Canada

ANNUAL STOCKHOLDERS MEETING

The 1974 Annual Meeting of Stockholders will be held Tuesday, April 30, at 10 a.m., in the Adams Building at the Company's Bartlesville, Oklahoma, headquarters. Proxies for this meeting will be requested when the official Notice, Proxy Statement, and Proxy form are mailed to stockholders about April 1, 1974.

PRODUCTS AND SERVICES

Sold by Phillips Petroleum Company and Its Subsidiaries

PRODUCTS

Automotive gasolines

Diesel fuel

Aviation fuels—gasolines, commercial and military jet fuels, anti-icing additive

Stove oil No. 1 (Range oil)

Furnace oil No. 2

Liquefied petroleum gases—motor fuel (propane, butane, butane-propane mixtures), commercial propane, butane, butane-propane mixtures, normal and isobutane

Kerosene

Crude oil

Natural gas

Liquefied natural gas

Lubricants—automotive, industrial, farm and ranch, marine, and fleet lubricants; aviation and snowmobile oils

Tires and Tubes—passenger car, truck, trailer

Batteries—automobile, truck and bus, farm, marine, small vehicles

Automotive accessories—anti-freeze, auto lamps, spark plugs, wiper blades, filters, belts

Fertilizers:

Anhydrous ammonia

Aqua ammonia

Ammonium nitrate

Ammonium sulfate

Urea

Urea-ammonium nitrate solution

Nitrate solution

Ammonium phosphates

Di-ammonium phosphate

Triple super phosphate

Phosphoric acid

Super phosphoric acid

Muriate of potash

Mixed liquid fertilizer solutions

Nitric acid

Feed ingredients—urea feed compounds, urea liquor, ammonium polyphosphate

Blasting materials—industrial ammonium nitrate

Asphalt

Helium—high-purity gas and liquid, and cryogenic hardware

Rubber chemicals:

Butadiene and butylenes

Carbon black

Synthetic rubbers

Extender oils

Mercaptans

Construction materials:

Pond lining fabric

Pavement reinforcing fabric

Synthetic rubber emulsions

Plastic resins:

Polyethylenes

Polypropylenes

Polyvinylchloride

Polystyrene

Polyphenylene sulfide

Butadiene-styrene copolymers

Rigid packaging—paperboard and plastic containers for consumer and industrial products

Rigid packaging machinery

Polypropylene packaging material—decorative and functional

Vinyl sheet and film

Plastic tubular goods—plastic pipe and fittings, conduit and duct, corrugated conduit

Custom fabricated plastic products—for the automotive, appliance, radio and TV industries

Other plastic products:

Plastic bottles

Horticulture ware

Bakery handling equipment

Plastic egg flats

Fifth wheel liner

Guy wire guard

Coating or laminating plastics and other materials—to paper, foil and other substrates for the paper, packaging, automotive, food, locker, and specialty fields

Release paper

Special chemicals:

Aliphatic solvents such as pentanes, hexanes, heptanes

Benzene

Binder for solid rocket fuels

Butene-1

Butene-2

Calcium petroleum sulfonate

Cyclohexane

Ethylene

Furan

High-purity hydrocarbons for research and development (available in several grades of purity)—aromatics, cycloolefins, cycloparaffins, diolefins, olefins, paraffins
Hydrocarbon aerosol propellants
Methylvinylpyridine
Mixed xylenes
Odorless solvents
Orthoxylene
Paraffinic naphtha
Paraxylene
Petro-sulfur compounds

Odorants for natural gas and LP-gas
Mercaptan intermediates (for agricultural chemicals and other uses) such as ethyl, n-propyl, n-butyl and n-dodecyl mercaptans, and ethylthioethanol
Sulfolane
2-Mercaptoethanol

Polymerization solvents
Propylene
Reference fuels
Rodent repellents
Special fuels
Sulfur
Toluene
Viscosity index improver
Wax

Tubing and metal products:

Stainless steel and nickel alloy tubing for aerospace and other industries
Custom fabricated parts for automotive, refrigeration, and other industries
Patio and porch furniture

Synthetic fibers:

Olefin

Polyester

Nylon

Carpet backing

Drilling mud and cement additives

SERVICES

Process analysis and control systems:

Advanced process analytical instrumentation and computer control systems; plant optimization, hybrid simulation, consulting, and maintenance services

Tanker hauling

Terminaling services

Engineering services

Consulting services—metallurgical

Liquefied natural gas technological services

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